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DELTA REPORT

10-Q

CFCP - COASTAL FINANCIAL CORP

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1899
CHANGES	1108
DELETIONS	374
ADDITIONS	417

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June September 30, 2023

or

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

For the transition period from _______________ to _______________

Commission file number: **001-38589**

COASTAL FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Washington	**56-2392007**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5415 Evergreen Way, Everett, Washington	**98203**
(Address of principal executive offices)	(Zip Code)

(425) 257-9000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, no par value per share	CCB	NASDAQ Global Select Market

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 x No o

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 x No o

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

Large Accelerated Filer	o	Accelerated Filer	x
Non-Accelerated Filer	o	Smaller Reporting Company	o
		Emerging Growth Company	x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act x

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

As of August 3, 2023 November 3, 2023, there were 13,301,679 13,302,449 shares of the issuer's common stock outstanding.

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COASTAL FINANCIAL CORPORATION

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. Any statements about our management's expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. All forward-looking statements, expressed or implied, included herewith are expressly qualified in their entirety by the cautionary statements contained or referred to herein. The inclusion of forward-looking information in this report should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

Factors that may affect our results are disclosed in "Item 1A. Risk Factors" in Part II of this report and in the section titled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 ("Form 10-K"). Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed include, but are not limited to, the following: the difficult market conditions and unfavorable economic conditions and uncertainties in the markets in which we operate and in which our loans are concentrated, including declines in housing markets as a result of global macroeconomic and geopolitical events, an increase in unemployment levels and slowdowns in economic growth; our expected future financial results; our ability to successfully execute on our strategy for our CCBX segment, CCBX partnerships and our efforts to optimize and strengthen our CCBX balance sheet; the overall health of the local and national real estate market; the impacts related to or resulting from recent bank failures and other economic and industry volatility, including potential increased regulatory requirements and costs and potential impacts to macroeconomic conditions; the credit risk associated with our loan portfolio, such as possible additional credit losses and impairment of collectability of loans as a result of the coronavirus, and variants thereof ("COVID-19") pandemic and policies and programs implemented by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), including its automatic loan forbearance provisions and the effects on our loan portfolio from our Paycheck Protection Program (“PPP”) lending activities, specifically with our commercial real estate loans; our level of nonperforming assets and the costs associated with resolving problem loans; business and economic conditions generally and in the financial services industry, nationally and within our market area, particularly in the markets in which we operate and in which our loans are concentrated; our ability to maintain an adequate level of allowance for credit losses; our ability to successfully manage liquidity risk; our ability to implement our growth strategy and manage costs effectively; the composition of our senior leadership team and our ability to attract and retain key personnel; our ability to raise additional capital to implement our business plan; changes in market interest rates and impacts of such changes on our profits and business; the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents; interruptions involving our information technology and telecommunications systems or third-party servicers; our ability to maintain our reputation; increased competition in the financial services industry; regulatory guidance on commercial lending concentrations; our relationship with broker-dealers and digital financial service providers; the effectiveness of our risk management framework; the costs and obligations associated with being a publicly traded company; the commencement and outcome of litigation and other legal proceedings and regulatory actions against us or to which we may become subject; the extensive regulatory framework that applies to us; the impact of recent and future legislative and regulatory changes and economic stimulus programs; and other changes in banking, securities and tax laws and regulations, and their application by our regulators; the impact on our operations due to epidemic illnesses, natural or man-made disasters, such as wildfires, the effects of regional or national civil unrest, and political developments that may disrupt or increase volatility in securities or otherwise affect economic conditions; the impact of benchmark interest rate reform in the U.S. and implementation of alternative reference rates, such as the Secured Overnight Financing Rate (“SOFR”), to the London Interbank Offered Rate (“LIBOR”); fluctuations in the value of the securities held in our securities portfolio; governmental monetary and fiscal policies; material weaknesses in our internal control over financial reporting; and our success at managing the risks involved in the foregoing items.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. You are cautioned not to place undue reliance on forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made 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, except as required by law.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands)

ASSETS

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Cash and due from banks	Cash and due from banks	$ 29,783	$ 32,722	Cash and due from banks	$ 29,984	$ 32,722
Interest earning deposits with other banks (restricted cash of $0 at June 30, 2023 and December 31, 2022)		245,277	309,417			
Interest earning deposits with other banks (restricted cash of $0 at September 30, 2023 and December 31, 2022)				Interest earning deposits with other banks (restricted cash of $0 at September 30, 2023 and December 31, 2022)	444,962	309,417
Investment securities, available for sale, at fair value	Investment securities, available for sale, at fair value	98,167	97,317	Investment securities, available for sale, at fair value	98,939	97,317
Investment securities, held to maturity, at amortized cost	Investment securities, held to maturity, at amortized cost	12,563	1,036	Investment securities, held to maturity, at amortized cost	42,550	1,036
Other investments	Other investments	12,037	10,555	Other investments	11,898	10,555
Loans held for sale		35,923	—			
Loans receivable	Loans receivable	3,007,553	2,627,256	Loans receivable	2,967,035	2,627,256
Allowance for credit losses	Allowance for credit losses	(110,762)	(74,029)	Allowance for credit losses	(101,085)	(74,029)

Total loans receivable, net	Total loans receivable, net	2,896,791	2,553,227	Total loans receivable, net	2,865,950	2,553,227
CCBX credit enhancement asset	CCBX credit enhancement asset	96,928	53,377	CCBX credit enhancement asset	91,867	53,377
CCBX receivable	CCBX receivable	19,113	10,416	CCBX receivable	10,623	10,416
Premises and equipment, net	Premises and equipment, net	18,903	18,213	Premises and equipment, net	20,543	18,213
Operating lease right-of-use assets	Operating lease right-of-use assets	6,216	5,018	Operating lease right-of-use assets	6,126	5,018
Accrued interest receivable	Accrued interest receivable	21,581	17,815	Accrued interest receivable	23,428	17,815
Bank-owned life insurance, net	Bank-owned life insurance, net	12,873	12,667	Bank-owned life insurance, net	12,970	12,667
Deferred tax asset, net	Deferred tax asset, net	25,764	18,458	Deferred tax asset, net	4,404	18,458
Other assets	Other assets	3,364	4,229	Other assets	14,021	4,229
Total assets	Total assets	$3,535,283	$3,144,467	Total assets	$3,678,265	$3,144,467
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES	LIABILITIES			LIABILITIES		
Deposits	Deposits	$3,162,572	$2,817,521	Deposits	$3,289,700	$2,817,521
Subordinated debt, net	Subordinated debt, net			Subordinated debt, net		
Principal amount $45,000 (less unamortized debt issuance costs of $931 and $1,001) at June 30, 2023 and December 31, 2022, respectively		44,069	43,999			
Principal amount $45,000 (less unamortized debt issuance costs of $894 and $1,001) at September 30, 2023 and December 31, 2022, respectively				Principal amount $45,000 (less unamortized debt issuance costs of $894 and $1,001) at September 30, 2023 and December 31, 2022, respectively	44,106	43,999
Junior subordinated debentures, net	Junior subordinated debentures, net			Junior subordinated debentures, net		
Principal amount $3,609 (less unamortized debt issuance costs of $20 at June 30, 2023 and December 31, 2022)		3,589	3,588			
Principal amount $3,609 (less unamortized debt issuance costs of $20 at September 30, 2023 and December 31, 2022)				Principal amount $3,609 (less unamortized debt issuance costs of $20 at September 30, 2023 and December 31, 2022)	3,589	3,588
Deferred compensation	Deferred compensation	547	616	Deferred compensation	513	616
Accrued interest payable	Accrued interest payable	766	684	Accrued interest payable	1,056	684
Operating lease liabilities	Operating lease liabilities	6,413	5,234	Operating lease liabilities	6,321	5,234
CCBX payable	CCBX payable	27,714	20,419	CCBX payable	38,229	20,419

Other liabilities	Other liabilities	16,951	8,912	Other liabilities	10,301	8,912
Total liabilities	Total liabilities	3,262,621	2,900,973	Total liabilities	3,393,815	2,900,973
SHAREHOLDERS' EQUITY	SHAREHOLDERS' EQUITY			SHAREHOLDERS' EQUITY		
Preferred stock, no par value:	Preferred stock, no par value:			Preferred stock, no par value:		
Authorized: 25,000,000 shares at June 30, 2023 and December 31, 2022; issued and outstanding: zero shares at June 30, 2023 and December 31, 2022		—	—			
Authorized: 25,000,000 shares at September 30, 2023 and December 31, 2022; issued and outstanding: zero shares at September 30, 2023 and December 31, 2022				Authorized: 25,000,000 shares at September 30, 2023 and December 31, 2022; issued and outstanding: zero shares at September 30, 2023 and December 31, 2022	—	—
Common stock, no par value:	Common stock, no par value:			Common stock, no par value:		
Authorized: 300,000,000 shares at June 30, 2023 and December 31, 2022; 13,300,809 shares at June 30, 2023 issued and outstanding and 13,161,147 shares at December 31, 2022 issued and outstanding		128,315	125,830			
Authorized: 300,000,000 shares at September 30, 2023 and December 31, 2022; 13,302,449 shares at September 30, 2023 issued and outstanding and 13,161,147 shares at December 31, 2022 issued and outstanding				Authorized: 300,000,000 shares at September 30, 2023 and December 31, 2022; 13,302,449 shares at September 30, 2023 issued and outstanding and 13,161,147 shares at December 31, 2022 issued and outstanding	129,244	125,830
Retained earnings	Retained earnings	146,029	119,998	Retained earnings	156,299	119,998
Accumulated other comprehensive loss, net of tax	Accumulated other comprehensive loss, net of tax	(1,682)	(2,334)	Accumulated other comprehensive loss, net of tax	(1,093)	(2,334)
Total shareholders' equity	Total shareholders' equity	272,662	243,494	Total shareholders' equity	284,450	243,494
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	$3,535,283	$3,144,467	Total liabilities and shareholders' equity	$3,678,265	$3,144,467

See accompanying Notes to Condensed Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except for per share data)

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
INTEREST AND DIVIDEND INCOME	INTEREST AND DIVIDEND INCOME					INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	Interest and fees on loans	$ 80,199	$ 40,166	$ 146,630	$ 69,798	Interest and fees on loans	$ 83,652	$ 52,328	$ 230,282	$ 122,126
Interest on interest earning deposits with other banks	Interest on interest earning deposits with other banks	2,678	956	5,775	1,358	Interest on interest earning deposits with other banks	3,884	2,273	9,659	3,631
Interest on investment securities	Interest on investment securities	653	563	1,206	634	Interest on investment securities	766	554	1,972	1,188
Dividends on other investments	Dividends on other investments	156	134	186	171	Dividends on other investments	29	24	215	195
Total interest income	Total interest income	83,686	41,819	153,797	71,961	Total interest income	88,331	55,179	242,128	127,140
INTEREST EXPENSE	INTEREST EXPENSE					INTEREST EXPENSE				
Interest on deposits	Interest on deposits	20,675	1,673	35,633	2,226	Interest on deposits	25,451	5,717	61,084	7,943
Interest on borrowed funds	Interest on borrowed funds	661	260	1,323	581	Interest on borrowed funds	651	273	1,974	854
Total interest expense	Total interest expense	21,336	1,933	36,956	2,807	Total interest expense	26,102	5,990	63,058	8,797
Net interest income	Net interest income	62,350	39,886	116,841	69,154	Net interest income	62,229	49,189	179,070	118,343
PROVISION FOR CREDIT LOSSES - LOANS	PROVISION FOR CREDIT LOSSES - LOANS	52,598	14,094	96,142	27,036	PROVISION FOR CREDIT LOSSES - LOANS	27,157	18,428	123,299	45,464
RECAPTURE FOR UNFUNDED COMMITMENTS		(345)	—	(192)	—					
PROVISION (RECAPTURE) FOR UNFUNDED COMMITMENTS						PROVISION (RECAPTURE) FOR UNFUNDED COMMITMENTS	96	—	(96)	—
Net interest income after provision for credit losses - loans and unfunded commitments	Net interest income after provision for credit losses - loans and unfunded commitments	10,097	25,792	20,891	42,118	Net interest income after provision for credit losses - loans and unfunded commitments	34,976	30,761	55,867	72,879
NONINTEREST INCOME	NONINTEREST INCOME					NONINTEREST INCOME				
Deposit service charges and fees	Deposit service charges and fees	989	988	1,899	1,872	Deposit service charges and fees	998	986	2,897	2,858
Loan referral fees	Loan referral fees	682	208	682	810	Loan referral fees	1	—	683	810
Gain on sales of loans, net	Gain on sales of loans, net	23	—	146	—	Gain on sales of loans, net	107	—	253	—
Unrealized (loss) gain on equity securities, net	Unrealized (loss) gain on equity securities, net	155	—	194	—	Unrealized (loss) gain on equity securities, net	5	(133)	199	(135)
Other income	Other income	234	396	533	784	Other income	291	260	824	1,046

Noninterest income, excluding BaaS program income and BaaS indemnification income	Noninterest income, excluding BaaS program income and BaaS indemnification income	2,083	1,592	3,454	3,466	Noninterest income, excluding BaaS program income and BaaS indemnification income	1,402	1,113	4,856	4,579
Servicing and other BaaS fees	Servicing and other BaaS fees	895	1,159	1,843	2,328	Servicing and other BaaS fees	997	1,079	2,840	3,407
Transaction fees	Transaction fees	1,052	814	1,969	1,307	Transaction fees	1,036	940	3,005	2,247
Interchange fees	Interchange fees	975	628	1,764	1,060	Interchange fees	1,216	738	2,980	1,798
Reimbursement of expenses	Reimbursement of expenses	1,026	618	1,947	990	Reimbursement of expenses	1,152	885	3,099	1,875
BaaS program income	BaaS program income	3,948	3,219	7,523	5,685	BaaS program income	4,401	3,642	11,924	9,327
BaaS credit enhancements	BaaS credit enhancements	51,027	14,207	93,389	27,282	BaaS credit enhancements	25,926	17,928	119,315	45,210
BaaS fraud enhancements	BaaS fraud enhancements	1,537	6,474	3,536	11,045	BaaS fraud enhancements	2,850	11,708	6,386	22,753
BaaS indemnification income	BaaS indemnification income	52,564	20,681	96,925	38,327	BaaS indemnification income	28,776	29,636	125,701	67,963
Total noninterest income	Total noninterest income	58,595	25,492	107,902	47,478	Total noninterest income	34,579	34,391	142,481	81,869
NONINTEREST EXPENSE	NONINTEREST EXPENSE					NONINTEREST EXPENSE				
Salaries and employee benefits	Salaries and employee benefits	16,309	12,238	31,884	23,323	Salaries and employee benefits	18,087	14,506	49,971	37,829
Occupancy	Occupancy	1,143	1,083	2,362	2,219	Occupancy	1,224	1,147	3,586	3,366
Data processing and software licenses	Data processing and software licenses	1,972	1,546	3,812	3,050	Data processing and software licenses	2,366	1,670	6,178	4,719
Legal and professional expenses	Legal and professional expenses	4,645	1,002	7,707	1,710	Legal and professional expenses	4,447	2,251	12,154	3,961
Point of sale expense	Point of sale expense	814	409	1,567	657	Point of sale expense	1,068	742	2,635	1,399
Excise taxes	Excise taxes	531	564	986	913	Excise taxes	541	588	1,527	1,501
Federal Deposit Insurance Corporation ("FDIC") assessments	Federal Deposit Insurance Corporation ("FDIC") assessments	570	855	1,165	1,459	Federal Deposit Insurance Corporation ("FDIC") assessments	694	850	1,859	2,309
Director and staff expenses	Director and staff expenses	519	377	1,145	721	Director and staff expenses	529	475	1,674	1,196
Marketing	Marketing	115	74	210	173	Marketing	169	69	379	242
Other expense	Other expense	1,722	1,318	2,612	2,795	Other expense	1,523	1,522	4,135	4,318
Noninterest expense, excluding BaaS loan and BaaS fraud expense	Noninterest expense, excluding BaaS loan and BaaS fraud expense	28,340	19,466	53,450	37,020	Noninterest expense, excluding BaaS loan and BaaS fraud expense	30,648	23,820	84,098	60,840
BaaS loan expense	BaaS loan expense	22,033	12,229	39,587	20,519	BaaS loan expense	23,003	15,560	62,590	36,079
BaaS fraud expense	BaaS fraud expense	1,537	6,474	3,536	11,045	BaaS fraud expense	2,850	11,707	6,386	22,752
BaaS loan and fraud expense	BaaS loan and fraud expense	23,570	18,703	43,123	31,564	BaaS loan and fraud expense	25,853	27,267	68,976	58,831
Total noninterest expense	Total noninterest expense	51,910	38,169	96,573	68,584	Total noninterest expense	56,501	51,087	153,074	119,671

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Income before provision for income taxes	Income before provision for income taxes	16,782	13,115	32,220	21,012	Income before provision for income taxes	13,054	14,065	45,274	35,077
PROVISION FOR INCOME TAXES	PROVISION FOR INCOME TAXES	3,876	2,939	6,923	4,606	PROVISION FOR INCOME TAXES	2,784	2,964	9,707	7,570
NET INCOME	NET INCOME	$ 12,906	$ 10,176	$ 25,297	$ 16,406	NET INCOME	$ 10,270	$ 11,101	$ 35,567	$ 27,507
Basic earnings per common share	Basic earnings per common share	$ 0.97	$ 0.79	$ 1.91	$ 1.27	Basic earnings per common share	$ 0.77	$ 0.86	$ 2.68	$ 2.13
Diluted earnings per common share	Diluted earnings per common share	$ 0.95	$ 0.76	$ 1.86	$ 1.22	Diluted earnings per common share	$ 0.75	$ 0.82	$ 2.61	$ 2.04
Weighted average number of common shares outstanding:	Weighted average number of common shares outstanding:					Weighted average number of common shares outstanding:				
Basic	Basic	13,275,640	12,928,061	13,236,517	12,913,485	Basic	13,285,974	12,938,200	13,253,184	12,921,814
Diluted	Diluted	13,597,763	13,442,013	13,603,594	13,458,706	Diluted	13,675,833	13,536,823	13,627,939	13,484,950

See accompanying Notes to Condensed Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(dollars in thousands)

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
NET INCOME	NET INCOME	$ 12,906	$ 10,176	$ 25,297	$ 16,406	NET INCOME	$ 10,270	$ 11,101	$ 35,567	$ 27,507
OTHER COMPREHENSIVE INCOME (LOSS), before tax	OTHER COMPREHENSIVE INCOME (LOSS), before tax					OTHER COMPREHENSIVE INCOME (LOSS), before tax				
Securities available-for-sale	Securities available-for-sale					Securities available-for-sale				
Unrealized holding income (loss) during the period	Unrealized holding income (loss) during the period	163	(1,351)	841	(1,701)	Unrealized holding income (loss) during the period	766	(946)	1,607	(2,652)
Income tax (expense) benefit related to unrealized holding gain/loss	Income tax (expense) benefit related to unrealized holding gain/loss	(38)	282	(189)	353	Income tax (expense) benefit related to unrealized holding gain/loss	(177)	199	(366)	557
OTHER COMPREHENSIVE INCOME (LOSS), net of tax	OTHER COMPREHENSIVE INCOME (LOSS), net of tax	125	(1,069)	652	(1,348)	OTHER COMPREHENSIVE INCOME (LOSS), net of tax	589	(747)	1,241	(2,095)
COMPREHENSIVE INCOME	COMPREHENSIVE INCOME	$ 13,031	$ 9,107	$ 25,949	$ 15,058	COMPREHENSIVE INCOME	$ 10,859	$ 10,354	$ 36,808	$ 25,412

See accompanying Notes to Condensed Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (UNAUDITED)

(dollars in thousands)

		Shares of Common Stock	Amount of Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total		Shares of Common Stock	Amount of Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, March 31, 2022		12,928,548	$ 122,592	$ 85,603	$ (275)	$ 207,920						
BALANCE, June 30, 2022							BALANCE, June 30, 2022	12,948,623	$ 123,226	$ 95,779	$ (1,344)	$ 217,661
Net income	Net income	—	—	10,176	—	10,176	Net income	—	—	11,101	—	11,101
Issuance of restricted stock awards	Issuance of restricted stock awards	10,396	—	—	—	—	Issuance of restricted stock awards	—	—	—	—	—
Vesting of restricted stock units	Vesting of restricted stock units	349	—	—	—	—	Vesting of restricted stock units	500	—	—	—	—
Exercise of stock options	Exercise of stock options	9,330	69	—	—	69	Exercise of stock options	5,450	34	—	—	34
Stock-based compensation	Stock-based compensation	—	565	—	—	565	Stock-based compensation	—	684	—	—	684
Other comprehensive loss, net of tax	Other comprehensive loss, net of tax	—	—	—	(1,069)	(1,069)	Other comprehensive loss, net of tax	—	—	—	(747)	(747)
BALANCE, June 30, 2022		12,948,623	$ 123,226	$ 95,779	$ (1,344)	$ 217,661						
BALANCE, September 30, 2022							BALANCE, September 30, 2022	12,954,573	$ 123,944	$ 106,880	$ (2,091)	$ 228,733
BALANCE, December 31, 2021	BALANCE, December 31, 2021	12,875,315	$ 121,845	$ 79,373	$ 4	$ 201,222	BALANCE, December 31, 2021	12,875,315	$ 121,845	$ 79,373	$ 4	$ 201,222
Net income	Net income	—	—	16,406	—	16,406	Net income	—	—	27,507	—	27,507
Issuance of restricted stock awards	Issuance of restricted stock awards	10,396	—	—	—	—	Issuance of restricted stock awards	10,396	—	—	—	—
Vesting of restricted stock units	Vesting of restricted stock units	26,637	—	—	—	—	Vesting of restricted stock units	27,137	—	—	—	—
Exercise of stock options	Exercise of stock options	36,275	277	—	—	277	Exercise of stock options	41,725	311	—	—	311
Stock-based compensation	Stock-based compensation	—	1,104	—	—	1,104	Stock-based compensation	—	1,788	—	—	1,788
Other comprehensive loss, net of tax	Other comprehensive loss, net of tax	—	—	—	(1,348)	(1,348)	Other comprehensive loss, net of tax	—	—	—	(2,095)	(2,095)
BALANCE, June 30, 2022		12,948,623	$ 123,226	$ 95,779	$ (1,344)	$ 217,661						
BALANCE, September 30, 2022							BALANCE, September 30, 2022	12,954,573	$ 123,944	$ 106,880	$ (2,091)	$ 228,733
BALANCE, March 31, 2023		13,281,533	$ 127,447	$ 133,123	$ (1,807)	$ 258,763						
BALANCE, June 30, 2023							BALANCE, June 30, 2023	13,300,809	$ 128,315	$ 146,029	$ (1,682)	$ 272,662
Net income	Net income	—	—	12,906	—	12,906	Net income	—	—	10,270	—	10,270
Issuance of restricted stock awards		13,538	—	—	—	—						
Vesting of restricted stock units		3,618	—	—	—	—						
Exercise of stock options	Exercise of stock options	2,120	22	—	—	22	Exercise of stock options	1,640	11	—	—	11

Stock-based compensation	Stock-based compensation	—	846	—	—	846	Stock-based compensation	—	918	—	—	918
Other comprehensive income, net of tax	Other comprehensive income, net of tax	—	—	—	125	125	Other comprehensive income, net of tax	—	—	—	589	589
BALANCE, June 30, 2023		13,300,809	$ 128,315	$ 146,029	$ (1,682)	$ 272,662						
BALANCE, September 30, 2023							BALANCE, September 30, 2023	13,302,449	$ 129,244	$ 156,299	$ (1,093)	$ 284,450
BALANCE, December 31, 2022	BALANCE, December 31, 2022	13,161,147	$ 125,830	$ 119,998	$ (2,334)	$ 243,494	BALANCE, December 31, 2022	13,161,147	$ 125,830	$ 119,998	$ (2,334)	$ 243,494
Adjustment to retained earnings; adoption of ASU 2016- 13	Adjustment to retained earnings; adoption of ASU 2016- 13	—	—	734	—	734	Adjustment to retained earnings; adoption of ASU 2016- 13	—	—	734	—	734
Net income	Net income	—	—	25,297	—	25,297	Net income	—	—	35,567	—	35,567
Issuance of restricted stock awards	Issuance of restricted stock awards	13,538	—	—	—	—	Issuance of restricted stock awards	13,538	—	—	—	—
Vesting of restricted stock units	Vesting of restricted stock units	46,020	—	—	—	—	Vesting of restricted stock units	46,020	—	—	—	—
Exercise of stock options	Exercise of stock options	80,104	589	—	—	589	Exercise of stock options	81,744	600	—	—	600
Stock-based compensation	Stock-based compensation	—	1,896	—	—	1,896	Stock-based compensation	—	2,814	—	—	2,814
Other comprehensive income, net of tax	Other comprehensive income, net of tax	—	—	—	652	652	Other comprehensive income, net of tax	—	—	—	1,241	1,241
BALANCE, June 30, 2023		13,300,809	$ 128,315	$ 146,029	$ (1,682)	$ 272,662						
BALANCE, September 30, 2023							BALANCE, September 30, 2023	13,302,449	$ 129,244	$ 156,299	$ (1,093)	$ 284,450

See accompanying Notes to Condensed Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

		Six Months Ended June 30,			Nine Months Ended September 30,	
		2023	2022		2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES	CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	Net income	$ 25,297	$ 16,406	Net income	$ 35,567	$ 27,507
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:			Adjustments to reconcile net income to net cash provided by operating activities:		

Provision for credit losses - loans	Provision for credit losses - loans	96,142	27,036	Provision for credit losses - loans	123,299	45,464
Depreciation and amortization	Depreciation and amortization	956	845	Depreciation and amortization	1,563	1,338
Loss on disposition of fixed assets	Loss on disposition of fixed assets	23	35	Loss on disposition of fixed assets	23	35
Decrease in operating lease right-of-use assets		461	540			
Decrease in operating lease liabilities		(480)	(534)			
Increase in operating lease right-of-use assets				Increase in operating lease right-of-use assets	639	812
Increase in operating lease liabilities				Increase in operating lease liabilities	(660)	(806)
Gain on sales of loans	Gain on sales of loans	(146)	—	Gain on sales of loans	(253)	—
Net discount accretion on investment securities	Net discount accretion on investment securities	(13)	(37)	Net discount accretion on investment securities	(19)	(45)
Unrealized holding loss on equity investment		(194)	—			
Unrealized holding (gain) loss on equity investment				Unrealized holding (gain) loss on equity investment	(199)	135
Stock-based compensation	Stock-based compensation	1,897	1,104	Stock-based compensation	2,814	1,788
Increase in bank-owned life insurance value	Increase in bank-owned life insurance value	(188)	(178)	Increase in bank-owned life insurance value	(285)	(269)
Deferred tax benefit		(7,714)	(4,533)			
Net change in deferred tax benefit				Net change in deferred tax benefit	13,468	(6,623)
Net change in CCBX receivable	Net change in CCBX receivable	(8,697)	(2,848)	Net change in CCBX receivable	(207)	(4,879)
Net change in CCBX credit enhancement asset	Net change in CCBX credit enhancement asset	(39,086)	(22,003)	Net change in CCBX credit enhancement asset	(34,025)	(39,516)
Net change in CCBX payable	Net change in CCBX payable	7,295	10,217	Net change in CCBX payable	17,810	13,350
Net change in other assets and liabilities	Net change in other assets and liabilities	5,562	(5,238)	Net change in other assets and liabilities	(13,299)	3,733
Total adjustments	Total adjustments	55,818	4,406	Total adjustments	110,669	14,517
Net cash provided by operating activities	Net cash provided by operating activities	81,115	20,812	Net cash provided by operating activities	146,236	42,024
CASH FLOWS FROM INVESTING ACTIVITIES	CASH FLOWS FROM INVESTING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities available for sale	Purchase of investment securities available for sale	—	(134,912)	Purchase of investment securities available for sale	—	(134,912)

Purchase of investment securities held for investment	Purchase of investment securities held for investment	(11,576)	—	Purchase of investment securities held for investment	(41,649)	—
Change in other investments, net	Change in other investments, net	(1,288)	(1,901)	Change in other investments, net	(1,144)	(2,238)
Principal paydowns of investment securities available-for-sale	Principal paydowns of investment securities available-for-sale	4	12	Principal paydowns of investment securities available-for-sale	6	14
Principal paydowns of investment securities held-to-maturity	Principal paydowns of investment securities held-to-maturity	48	34	Principal paydowns of investment securities held-to-maturity	133	44
Maturities and calls of investment securities available-for-sale	Maturities and calls of investment securities available-for-sale	—	60,000	Maturities and calls of investment securities available-for-sale	—	70,000
Purchase of bank owned life insurance	Purchase of bank owned life insurance	(18)	(53)	Purchase of bank owned life insurance	(18)	(53)
Proceeds from sales of loans held for sale	Proceeds from sales of loans held for sale	154,061	20,059	Proceeds from sales of loans held for sale	475,065	84,878
Proceeds from sales of loan participations				Proceeds from sales of loan participations	—	10,300
Purchase of loans	Purchase of loans	(47,886)	(165,456)	Purchase of loans	(91,465)	(165,790)
Increase in loans receivable, net	Increase in loans receivable, net	(585,510)	(512,532)	Increase in loans receivable, net	(823,221)	(752,670)
Purchases of premises and equipment, net	Purchases of premises and equipment, net	(1,669)	(2,331)	Purchases of premises and equipment, net	(3,916)	(2,621)
Net cash used by investing activities	Net cash used by investing activities	(493,834)	(737,080)	Net cash used by investing activities	(486,209)	(893,048)
CASH FLOWS FROM FINANCING ACTIVITIES	CASH FLOWS FROM FINANCING ACTIVITIES			CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW and money market, and savings	Net increase in demand deposits, NOW and money market, and savings	349,674	340,502	Net increase in demand deposits, NOW and money market, and savings	481,010	482,863
Net decrease in time deposits	Net decrease in time deposits	(4,623)	(6,984)	Net decrease in time deposits	(8,830)	(9,584)
Net repayment from long term FHLB borrowing	Net repayment from long term FHLB borrowing	—	(24,999)	Net repayment from long term FHLB borrowing	—	(24,999)
Proceeds from exercise of stock options	Proceeds from exercise of stock options	589	277	Proceeds from exercise of stock options	600	311
Net cash provided by financing activities	Net cash provided by financing activities	345,640	308,796	Net cash provided by financing activities	472,780	448,591
NET CHANGE IN CASH, DUE FROM BANKS AND RESTRICTED CASH	NET CHANGE IN CASH, DUE FROM BANKS AND RESTRICTED CASH	(67,079)	(407,472)	NET CHANGE IN CASH, DUE FROM BANKS AND RESTRICTED CASH	132,807	(402,433)
CASH, DUE FROM BANKS AND RESTRICTED CASH, beginning of year	CASH, DUE FROM BANKS AND RESTRICTED CASH, beginning of year	342,139	813,161	CASH, DUE FROM BANKS AND RESTRICTED CASH, beginning of year	342,139	813,161
CASH, DUE FROM BANKS AND RESTRICTED CASH, end of quarter	CASH, DUE FROM BANKS AND RESTRICTED CASH, end of quarter	$ 275,060	$ 405,689	CASH, DUE FROM BANKS AND RESTRICTED CASH, end of quarter	$ 474,946	$ 410,728

SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES	SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES					SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES				
Interest paid	Interest paid	$	36,874	$	2,834	Interest paid	$	62,686	$	9,001
Income taxes paid	Income taxes paid		5,195		5,247	Income taxes paid		5,195		11,430

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SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS	SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS					SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS				
Fair value adjustment of securities available-for-sale, gross	Fair value adjustment of securities available-for-sale, gross	$	841	$	(1,705)	Fair value adjustment of securities available-for-sale, gross	$	1,607	$	(2,095)
Operating lease right-of-use assets	Operating lease right-of-use assets	$	1,659	$	—	Operating lease right-of-use assets	$	1,747	$	—
Operating lease liabilities	Operating lease liabilities	$	(1,659)	$	—	Operating lease liabilities	$	(1,747)	$	—
Non-cash investing and financing activities:	Non-cash investing and financing activities:					Non-cash investing and financing activities:				
Transfer from loans to loans held for sale	Transfer from loans to loans held for sale	$	189,838	$	80,058	Transfer from loans to loans held for sale	$	474,812	$	128,193
Adjustment to retained earnings - adoption of ASU 2016-13, net of deferred tax	Adjustment to retained earnings - adoption of ASU 2016-13, net of deferred tax	$	(734)	$	—	Adjustment to retained earnings - adoption of ASU 2016-13, net of deferred tax	$	(734)	$	—

See accompanying Notes to Condensed Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Description of Business and Summary of Significant Accounting Policies

Nature of operations - Coastal Financial Corporation (“Corporation” or “Company”) is a registered bank holding company whose wholly owned subsidiaries are Coastal Community Bank (“Bank”) and Arlington Olympic LLC (“LLC”). The Company is a Washington state corporation that was organized in 2003. The Bank was incorporated and commenced operations in 1997 and is a Washington state-chartered commercial bank that is a member bank of the Federal Reserve system. Arlington Olympic LLC was formed in 2019 and owns the Company’s Arlington branch site, which the Bank leases from the LLC.

We are headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. The Company’s business is conducted through three reportable segments: CCBX, the community bank and treasury & administration. The CCBX segment provides Banking as a Service (“BaaS”) that allows our broker dealers and digital financial service partners to offer their customers banking services. Through CCBX’s partners the Company is able to offer banking services and products across the nation.The community bank segment includes all community banking activities with a primary focus on providing a wide range of banking products and services to consumers and small to medium-sized businesses, professionals, and individuals in the broader Puget Sound region in the state of Washington through its 14 branches in Snohomish, Island and King Counties, and through the Internet and its mobile banking application. The treasury & administration segment includes treasury management, overall administration and all other aspects of the Company.

The Bank’s deposits are insured in whole or in part by the Federal Deposit Insurance Corporation. The community bank’s loans and deposits are primarily within the greater Puget Sound area, while CCBX loans and deposits are dependent upon the partner’s market. The Bank’s primary funding source is deposits from customers. The Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”) and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has regulatory and supervisory authority over the Company.

Financial statement presentation - The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim reporting requirements and with instructions to Form 10-Q and Article 10 of Regulation S-X, and therefore do not include all the information and notes included in the annual consolidated financial statements in conformity with GAAP. These interim condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes included in the Company's Annual report on Form 10-K as filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2023. Operating results for the three and six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results that may be expected for the entire year.

Amounts presented in the consolidated financial statements and footnote tables are rounded and presented in thousands of dollars except per-share amounts, which are presented in dollars. In the narrative footnote discussion, amounts are rounded to thousands and presented in dollars.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying consolidated financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation.

Principles of consolidation - The consolidated financial statements include the accounts of the Company, the Bank and the LLC. All significant intercompany accounts have been eliminated in consolidation.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that its critical accounting policies include determining the allowance for credit losses, the valuation of the Company's deferred tax assets, and fair value of financial instruments. Actual results could differ significantly from those estimates.

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Implementation of ASU 2016-13 - On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss with an expected loss methodology that is referred to as the current expected credit loss (CECL) ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized costs, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require increases or decreases in credit losses be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believe it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis.

The Company adopted ASC 326 using the modified retrospective method. Results for the reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The day one CECL adjustment for community bank loans included a reduction of $310,000 to the community bank allowance in the first quarter of 2023 and a reduction of $340,000 related to the community bank unfunded commitment reserve in the first quarter of 2023. This was offset by an increase to the CCBX allowance for $4.2 million in the same period. With the mirror image approach accounting related to the credit enhancement for CCBX partner loans, there was a CECL day one increase to the indemnification asset in the amount of $4.5 million. Net, the day one impact to retained earnings for the Bank's transition to CECL was an increase of $954,000 in the first quarter of 2023, excluding the impact of income taxes.

Management has separately evaluated its held-to-maturity investment securities and determined that no loss reserves were required.

Implementation of ASU 2022-02 - On January 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings ("TDR") and Vintage Disclosures.* The ASU eliminated the accounting guidance for TDR loans by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, the ASU requires public business entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. This ASU was effective upon adoption of ASU 2016-13 and was applied on a prospective basis. During the three and six nine months ended June 30, 2023 September 30, 2023, the Company did not have any loans that were modified to borrowers experiencing financial difficulty.

Accounting policy update –

Allowance for Credit Losses - effective January 1, 2023 with the adoption of ASU 2016-13

Loans and unfunded commitments

The allowance for credit losses ("ACL") is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the pool and whether it needs to evaluate the allowance on an individual basis. The Company must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Company cannot extend the contractual term of the loan for expected extensions, renewals, and modifications, unless the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Company. Because expected credit losses are estimated over the contractual life adjusted for estimated prepayments, determination of the life of the loan may significantly affect the ACL. The Company has chosen to segment its portfolio consistent with the manner in which it manages the risk of the type of credit.

- Community Bank Portfolio: The ACL calculation is derived from loan segments utilizing loan level information and relevant available information from internal and external sources related to past events and current conditions. In addition, the Company incorporates a reasonable and supportable forecast.

- CCBX Portfolio: The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the risk inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio.

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Also included in the ACL are qualitative reserves to cover losses that are expected, but in the Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower's financial condition, credit rating and the volume and severity of past due loans and non-accrual loans. Based on this analysis, the Company records a provision for credit losses to maintain the allowance at appropriate levels.

Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and the use of subjective measurements, including management's assessment of overall portfolio quality. The Company maintains the allowance at an amount the Company believes is sufficient to provide for estimated losses expected to occur in the Company's loan portfolio at each balance sheet date, and fluctuations in the provision for credit losses may result from management's assessment of the adequacy of the allowance. Changes in these estimates and assumptions are possible and may have a material impact on the Company's allowance, and therefore the Company's financial position, liquidity or results of operations. The Company has elected to exclude accrued interest receivable from the amortized cost basis in its ACL calculation as accrued interest is written off in a timely manner when deemed uncollectable.

For more information and discussion related to the allowance for credit losses on loans, see "*Note 4 - Loans and Allowance for Credit Losses"* in the Consolidated Financial Statements.

In addition to the ACL on loans held for investment, CECL requires a balance sheet liability for expected losses on unfunded commitments, which is recognized if both the following conditions are met: (1) the Company has a present contractual obligation to extend credit; and (2) the obligation is not unconditionally cancellable by the Company. Loan commitments may have a funded and unfunded portion, of which the liability for unfunded commitments is derived based upon the commitments to extend credit to a borrower (e.g., an estimate of expected credit losses is not established for unfunded portions of loan commitment that are unconditionally cancellable by the Company). The expected credit losses for funded portions are reported in the previously discussed ACL. The Company segments its unfunded commitment portfolio consistent with the ACL calculation, separating between unfunded lines and commitments to originate. The Company incorporates the probability of funding (i.e. estimate of utilization) for each segment and then utilizes the ACL loss rates for each segment on an aggregate basis to calculate the allowance for unfunded commitments

Available-for-sale debt securities

For available-for-sale debt securities with fair value below amortized cost, the security is considered impaired. When the Company does not intend to sell the debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, then the Company assesses the impairment for potential expected credit losses. Impairment related to a credit loss is measured using the discounted cash flow method. Credit loss recognition is limited to the fair value of the security. The impairment is recognized by establishing an ACL through provision for credit losses. Impairment related to noncredit factors is recognized in accumulated other comprehensive income, net of applicable taxes. The Company evaluates AFS security impairment on a quarterly basis.

Held-to-maturity debt securities

For held-to-maturity debt securities, expected losses are evaluated and calculated on a collective basis for those securities which share risk characteristics. The Company aggregates similar securities and reports the security portfolio segments based on shared risk characteristics. The only segment included in the held-to-maturity portfolio are U.S. Agency Residential Mortgage Backed Securities which have an expected zero credit loss.

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The following table illustrates the impact of ASU 2016-13:

	January 1, 2023		
	As reported under ASC 326	**Pre-ASC 326 Adoption**	**Impact of ASC 326 Adoption**
Assets:			
Allowance for credit losses	$ 77,881	$ 74,029	$ 3,852
CCBX credit enhancement asset	57,842	53,377	4,465
Deferred tax asset	18,238	18,458	(220)
Liabilities:			
Unfunded commitment reserve	634	974	(340)
Shareholders' Equity:			
Retained earnings	120,732	119,998	734

Subsequent Events - The Company has evaluated events and transactions subsequent to June 30, 2023 September 30, 2023 for potential recognition or disclosure.

Reclassifications - Certain amounts reported in prior quarters' consolidated financial statements may have been reclassified to conform to the current presentation with no effect on stockholders’ equity or net income.

Note 2 - Recent accounting standards

Recent Accounting Guidance

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2024. The LIBOR ceased to be published effective June 30, 2023. Beginning with rate adjustments that occur after June 30, 2023, our trust preferred subordinated debentures will transition transitioned to an adjusted three-month CME Term SOFR index in accordance with the Federal Reserve final rule implementing the Adjustable Interest Rate Act. We have identified the loans that utilize LIBOR and they will transition to alternative reference rates at each loans respective reprice date. We are no longer offering offer LIBOR indexed rates on newly originated loans. ASU 2020-04 and ASU 2021-01 are not expected to have a material impact on our consolidated financial statements.

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Note 3 - Investment Securities

The following table summarizes the amortized cost, fair value, and allowance for credit losses and the corresponding amounts of gross unrealized gains and losses of available-for-sale securities recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses of held-to-maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
	(dollars in thousands; unaudited)				
June 30, 2023					
Available-for-sale					
U.S. Treasury securities	$ 99,981	$ —	$ (2,110)	$ 97,871	$ —
U.S. Agency collateralized mortgage obligations	50	—	(3)	47	—
Municipal bonds	250	—	(1)	249	—
Total available-for-sale securities	100,281	—	(2,114)	98,167	—
Held-to-maturity					
U.S. Agency residential mortgage-backed securities	12,563	—	(404)	12,159	—
Total investment securities	$ 112,844	$ —	$ (2,518)	$ 110,326	$ —

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
	(dollars in thousands; unaudited)				
September 30, 2023					
Available-for-sale					
U.S. Treasury securities	$ 99,988	$ —	$ (1,344)	$ 98,644	$ —
U.S. Agency collateralized mortgage obligations	49	—	(4)	45	—
Municipal bonds	250	—	—	250	—
Total available-for-sale securities	100,287	—	(1,348)	98,939	—
Held-to-maturity					
U.S. Agency residential mortgage-backed securities	42,550	—	(1,687)	40,863	—
Total investment securities	$ 142,837	$ —	$ (3,035)	$ 139,802	$ —

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
			(dollars in thousands; unaudited)				
December 31, 2022							
Available-for-sale							
U.S. Treasury securities	$ 99,967	$	—	$	(2,952)	$	97,015
U.S. Agency collateralized mortgage obligations	54		—		(3)		51
U.S. Agency residential mortgage-backed securities	1		—		—		1
Municipal bonds	250		—		—		250
Total available-for-sale securities	100,272		—		(2,955)		97,317
Held-to-maturity							
U.S. Agency residential mortgage-backed securities	1,036		—		(120)		916
Total investment securities	$ 101,308	$	—	$	(3,075)	$	98,233

Accrued interest on available-for-sale securities was $711,000 $184,000 and $723,000 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, accrued interest on held-to-maturity securities was $50,000 $193,000 and $3,000 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Accrued interest on securities is excluded from the balances in the preceding table of securities receivable, and is included in accrued interest receivable on the Company's consolidated balance sheets.

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The amortized cost and fair value of debt securities at June 30, 2023 September 30, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers or the underlying borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are shown separately, since they are not due at a single maturity date.

		Available-for-Sale		Held-to-Maturity			Available-for-Sale		Held-to-Maturity	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value		Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(dollars in thousands; unaudited)					(dollars in thousands; unaudited)			
June 30, 2023										
September 30, 2023						**September 30, 2023**				
Amounts maturing in	Amounts maturing in					Amounts maturing in				
One year or less	One year or less	$ 100,231	$ 98,120	$ —	$ —	One year or less	$ 100,238	$ 98,894	$ —	$ —
		100,231	98,120	—	—		100,238	98,894	—	—
U.S. Agency residential mortgage-backed securities and collateralized mortgage obligations	U.S. Agency residential mortgage-backed securities and collateralized mortgage obligations	50	47	12,563	12,159	U.S. Agency residential mortgage-backed securities and collateralized mortgage obligations	49	45	42,550	40,863
		$ 100,281	$ 98,167	$ 12,563	$ 12,159		$ 100,287	$ 98,939	$ 42,550	$ 40,863

Investments in debt securities with an amortized cost of $22.0 million at June 30, 2023 September 30, 2023 and $37.8 million as of December 31, 2022, were pledged to secure public deposits and for other purposes as required or permitted by law. During the six nine months ended June 30, 2023 September 30, 2023, one security matured for $590,000. matured. During the six nine months ended June 30, 2023 September 30, 2023, three twelve securities were purchased for $11.6 million $41.6 million.

There were no sales of securities during the six nine months ended June 30, 2023 September 30, 2023 or 2022.

There were ten eighteen securities with a $2.5 million $3.0 million unrealized loss as of June 30, 2023 September 30, 2023. There were six securities in an unrealized loss position as of December 31, 2022. The following table shows the investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position for which an allowance for credit losses has not been recorded:

	Less Than 12 Months	12 Months or Greater	Total	Less Than 12 Months	12 Months or Greater	Total

		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
		(dollars in thousands; unaudited)							(dollars in thousands; unaudited)					
June 30, 2023														
September 30, 2023								**September 30, 2023**						
Available-for-sale	Available-for-sale							Available-for-sale						
U.S. Treasury securities	U.S. Treasury securities	$ —	$ —	$ 97,871	$ 2,110	$ 97,871	$ 2,110	U.S. Treasury securities	$ —	$ —	$98,644	$ 1,344	$ 98,644	$ 1,344
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations	—	—	47	3	47	3	U.S. Agency collateralized mortgage obligations	—	—	45	4	45	4
Municipals		249	1	—	—	249	1							
Total available-for-sale securities	Total available-for-sale securities	249	1	97,918	2,113	98,167	2,114	Total available-for-sale securities	—	—	98,689	1,348	98,689	1,348
Held-to-maturity	Held-to-maturity							Held-to-maturity						
U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	11,261	287	898	117	12,159	404	U.S. Agency residential mortgage-backed securities	40,026	1,520	837	167	40,863	1,687
Total investment securities	Total investment securities	$ 11,510	$ 288	$ 98,816	$ 2,230	$ 110,326	$ 2,518	Total investment securities	$ 40,026	$ 1,520	$99,526	$ 1,515	$139,552	$ 3,035

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Management has evaluated the above securities and does not believe that any individual unrealized loss as of June 30, 2023 September 30, 2023, will be recognized into income. Unrealized losses have not been recognized into income because management does not intend to sell and does not expect it will be required to sell the investments. The decline is largely due to changes in market conditions and interest rates, rather than credit quality. The fair value is expected to recover as the underlying securities in the portfolio approach maturity date and market conditions improve. Management believes there is a high probability of collecting all contractual amounts due, because the majority of the securities in the portfolio are backed by government agencies or government sponsored enterprises. However, a recovery in value may not occur for some time, if at all, and may be delayed for greater than the one year time horizon or perhaps even until maturity. Based on management's analysis no allowance for credit losses was required on these securities.

Note 4 - Loans and Allowance for Credit Losses

During the quarter ended June 30, 2023 September 30, 2023, $88.6 million $285.0 million in CCBX loans were transferred to loans held for sale, with $80.0 million $320.9 million in loans sold. A portion of these loans were sold at par and a portion were sold with a gain on sale of $23,000. $107,000. Pricing is dependent upon the agreement with the partner. The Company sells CCBX loans to manage loan portfolio size by partner and by loan category, with such limits established and documented in the relevant partner agreement. As of June 30, 2023 $35.9 million in residential real estate secured lines of credit loans remain in loans held for sale. At September 30, 2023 and December 31, 2022, there were no loans held for sale.

The Company adopted the CECL methodology for measuring credit losses as of January 1, 2023. All disclosures as of and for the three and six nine months ended June 30, 2023 September 30, 2023 are presented in accordance with Topic 326. The Company did not recast comparative financial periods and has presented those disclosures under previously applicable GAAP.

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The composition of the loan portfolio is as follows as of the periods indicated:

		June September 30, 2023
		(dollars in thousands; unaudited)
Community Bank		
Commercial and industrial loans	$	155,078 158,232
Real estate loans:		
Construction, land and land development loans		186,706 167,686
Residential real estate loans		211,966 225,372
Commercial real estate loans		1,164,088 1,237,849
Consumer and other loans:		
Other consumer and other loans		1,457 2,483
Gross Community Bank loans receivable		1,719,295 1,791,622
CCBX		
Commercial and industrial loans:		
Capital call lines	$	138,428 114,174
All other commercial & industrial loans		60,323 58,869
Real estate loans:		
Residential real estate loans		251,213 251,775
Consumer and other loans:		
Credit cards		379,642 440,993
Other consumer and other loans		465,360 316,987
Gross CCBX loans receivable		1,294,966 1,182,798
Total gross loans receivable		3,014,261 2,974,420
Net deferred origination fees and premiums		(6,708) (7,385)
Loans receivable	$	3,007,553 2,967,035

		December 31, 2022
Consolidated		(dollars in thousands; unaudited)
Commercial and industrial loans	$	312,628
Real estate loans:		
Construction, land, and land development		214,055
Residential real estate		449,157
Commercial real estate		1,048,752
Consumer and other loans		608,771
Gross loans receivable		2,633,363
Net deferred origination fees and premiums		(6,107)
Loans receivable	$	2,627,256

Accrued interest on loans, which is excluded from the balances in the preceding table of loans receivable, was $20.8 million $21.3 million and $17.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, and was included in accrued interest receivable on the Company's consolidated balance sheets.

Included in commercial and industrial loans as of June 30, 2023 September 30, 2023 and December 31, 2022, is $138.4 million $114.2 million and $146.0 million, respectively in capital call lines, provided to venture capital firms through one of our BaaS clients. These loans are secured by the capital call rights and are individually underwritten to the Bank's credit standards by our BaaS client and the underwriting is reviewed and approved by the Bank on every line. line/loan. Also included in commercial and industrial loans are

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industrial loans are Paycheck Protection Program ("PPP") loans of $3.6 million $3.3 million at June 30, 2023 September 30, 2023 and $4.7 million at December 31, 2022. PPP loans are 100% guaranteed by the Small Business Administration ("SBA").

Consumer and other loans includes overdrafts of $2.3 million $3.3 million and $2.7 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Community bank overdrafts were $13,000 $1.0 million and $94,000 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively and CCBX overdrafts were $2.2 million $2.3 million and $2.6 million at June 30, 2023 September 30, 2023 and December 31, 2022.

The Company has pledged loans totaling $901.9 million $927.0 million and $220.1 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, for borrowing lines at the FHLB and FRB. Additional loans were pledged during the first six months of 2023 to significantly increase the borrowing capacity of the Bank in the event of a liquidity crisis.

The balance of SBA and USDA United States Department of Agriculture ("USDA") loans and participations sold and serviced for others totaled $9.4 million $9.1 million and $14.3 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The gross balance of Main Street Lending Program ("MSLP") loans including participations to others, totaled $58.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, with $3.1 million in MSLP loans on the balance sheet and included in commercial and industrial loans at June 30, 2023 September 30, 2023, and December 31, 2022. Servicing is retained on the gross balance.

The Company, at times, purchases individual loans that meet its underwriting standards through the community bank at fair value as of the acquisition date. The Company held purchased loans with remaining balances that totaled $9.3 9.0 million and $9.6 million as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Unamortized premiums on these loans totaled $162,000 $156,000 and $167,000 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively, and are amortized into interest income over the life of the loans.

The Company has purchased participation loans with remaining balances totaling $58.8 million $61.4 million and $63.9 million as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. These loans are included in the applicable loan category depending upon the collateral and purpose of the individual loan and underwritten to the Bank's credit standards.

The Company purchased loans from a CCBX partner, at par, through agreements with that CCBX partner, and those loans had a remaining balance of $144.9 million $57.1 million as of June 30, 2023 September 30, 2023 and $157.4 million as of December 31, 2022. As of June 30, 2023 September 30, 2023, $134.2 million $50.1 million is included in consumer and other loans and $10.8 million $7.0 million is included in commercial and industrial loans, compared to $146.1 million in consumer and other loans and $11.3 million in commercial and industrial loans as of December 31, 2022.

The following is a summary of the Company's loan portfolio segments:

Commercial and industrial loans – Commercial and industrial loans are secured by business assets including inventory, receivables and machinery and equipment of businesses located generally in the Company's primary market area and capital calls on venture and investment funds. Also included in commercial and industrial loans are $60.3 million $58.9 million in unsecured CCBX partner loans. Loan types include PPP loans, revolving lines of credit, term loans, and loans secured by liquid collateral such as cash deposits or marketable securities. Also included in commercial and industrial loans are loans to other financial institutions. Risk arises primarily due to the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recovery of the Company's investment is dependent upon the borrower's ability to collect amounts due from its customers.

As of June 30, 2023 September 30, 2023, $138.4 million $114.2 million in outstanding CCBX capital call lines are included in commercial and industrial loans compared to $146.0 million at December 31, 2022. Capital call lines are provided to venture capital firms. These loans are secured by the capital call rights and are individually underwritten to the Bank's credit standards by our CCBX partner and the underwriting is reviewed by the Bank on every line/loan.

Construction, land and land development loans – The Company originates loans for the construction of 1-4 family, multifamily, and Commercial Real Estate ("CRE") properties in the Company's market area. Construction loans are considered to have higher risks due to construction completion and timing risk, the ultimate repayment being sensitive to interest rate changes, government regulation of real property and the availability of long-term financing. Additionally,

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economic conditions may impact the Company's ability to recover its investment in construction loans, as adverse economic conditions may negatively impact the real estate market, which could affect the borrower's ability to complete

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and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. The Company occasionally originates land loans for the purpose of facilitating the ultimate construction of a home or commercial building. The primary risks include the borrower's ability to pay and the inability of the Company to recover its investment due to a material decline in the fair value of the underlying collateral.

Residential real estate loans – Residential real estate includes various types of loans for which the Company holds real property as collateral. Included in this segment are first and second lien single family loans, occasionally purchased by the Company to diversify its loan portfolio, and rental portfolios secured by one-to-four family homes. The primary risks of residential real estate loans include the borrower's inability to pay, material decreases in the value of the collateral, and significant increases in interest rates which may make the loan unprofitable.

As of June 30, 2023 September 30, 2023, $251.2 million $251.8 million in loans originated through CCBX partners are included in residential real estate loans, compared to $244.6 million at December 31, 2022. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card. Home equity lines of credit are classified as residential real estate per regulatory guidelines.

Commercial real estate (includes owner occupied and nonowner occupied) loans – Commercial real estate loans include various types of loans for which the Company holds real property as collateral. We have commercial mortgage loans totaling $360.5 million that are collateralized by $356.0 million of owner-occupied real-estate and $478.2 million of $519.1 million that are collateralized by non-owner-occupied real estate, as well as $319.0 million $347.2 million of multi-family residential loans and $11.0 million $11.2 million of farmland loans, as of June 30, 2023 September 30, 2023. The primary risks of commercial real estate loans include the borrower's inability to pay, material decreases in the value of the collateralized real estate and significant increases in interest rates, which may make the real estate loan unprofitable. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

Consumer and other loans – The community bank originates a limited number of consumer loans, generally for banking customers only, which consist primarily of lines of credit, saving account secured loans, and auto loans. CCBX originates consumer loans including credit cards, consumer term loans and secured and unsecured lines of credit. This loan category includes overdrafts. Repayment of these loans is dependent on the borrower's ability to pay and the fair value of the underlying collateral, if any.

As of June 30, 2023 September 30, 2023, $845.0 million $758.0 million in CCBX loans are included in consumer and other loans compared to $607.0 million at December 31, 2022.

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Past Due and Nonaccrual Loans

The following table illustrates an age analysis of past due loans as of the dates indicated:

		30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Still Accruing		30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Pas Due and Still Accruin
		(dollars in thousands; unaudited)							(dollars in thousands; unaudited)					
June 30, 2023														
September 30, 2023								**September 30, 2023**						
Community Bank	**Community Bank**							**Community Bank**						
Commercial and industrial loans	Commercial and industrial loans	$ 97	$ —	$ 97	$ 154,981	$ 155,078	$ —	Commercial and industrial loans	$ 18	$ —	$ 18	$ 158,214	$ 158,232	$ —
Real estate loans:	Real estate loans:							Real estate loans:						
Construction, land and land development	Construction, land and land development	—	66	66	186,640	186,706	—	Construction, land and land development	—	—	—	167,686	167,686	—
Residential real estate	Residential real estate	—	186	186	211,780	211,966	—	Residential real estate	—	—	—	225,372	225,372	—
Commercial real estate	Commercial real estate	—	7,142	7,142	1,156,946	1,164,088	—	Commercial real estate	—	7,145	7,145	1,230,704	1,237,849	—
Consumer and other loans	Consumer and other loans	32	—	32	1,425	1,457	—	Consumer and other loans	48	—	48	2,435	2,483	—
Total community bank	Total community bank	$ 129	$ 7,394	$ 7,523	$1,711,772	$1,719,295	$ —	Total community bank	$ 66	$ 7,145	$ 7,211	$1,784,411	$1,791,622	$ —
CCBX	**CCBX**							**CCBX**						
Commercial and industrial loans:	Commercial and industrial loans:							Commercial and industrial loans:						
Capital call lines	Capital call lines	$ —	$ —	$ —	$ 138,428	$ 138,428	$ —	Capital call lines	$ —	$ —	$ —	$ 114,174	$ 114,174	$ —

All other commercial & industrial loans	All other commercial & industrial loans	1,575	808	2,383	57,940	60,323	808	All other commercial & industrial loans	3,299	1,387	4,686	54,183	58,869	1,387
Real estate loans:	Real estate loans:							Real estate loans:						
Residential real estate loans	Residential real estate loans	2,378	1,722	4,100	$ 247,113	$ 251,213	1,722	Residential real estate loans	2,655	1,462	4,117	$ 247,658	$ 251,775	1,462
Consumer and other loans:	Consumer and other loans:							Consumer and other loans:						
Credit cards	Credit cards	17,572	18,306	35,878	$ 343,764	$ 379,642	18,306	Credit cards	23,543	24,807	48,350	$ 392,643	$ 440,993	24,807
Other consumer and other loans	Other consumer and other loans	21,656	5,492	27,148	438,212	465,360	5,492	Other consumer and other loans	30,141	8,561	38,702	278,285	316,987	8,561
Total CCBX	Total CCBX	$43,181	$26,328	$69,509	$1,225,457	$1,294,966	$26,328	Total CCBX	$59,638	$36,217	$ 95,855	$1,086,943	$1,182,798	$36,217
Total community bank and CCBX		$43,310	$33,722	$77,032	$2,937,229	3,014,261	$26,328							
Total Consolidated								Total Consolidated	$59,704	$43,362	$103,066	$2,871,354	2,974,420	$36,217
Less net deferred origination fees and premiums	Less net deferred origination fees and premiums					(6,708)		Less net deferred origination fees and premiums					(7,385)	
Loans receivable	Loans receivable					$3,007,553		Loans receivable					$2,967,035	

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Consolidated	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Still Accruing
			(dollars in thousands; unaudited)			
December 31, 2022						
Commercial and industrial loans	$ 393	$ 486	$ 879	$ 311,749	$ 312,628	$ 404
Real estate loans:						
Construction, land and land development	—	66	66	213,989	214,055	—
Residential real estate	1,016	876	1,892	447,265	449,157	876
Commercial real estate	95	6,901	6,996	1,041,756	1,048,752	—
Consumer and other loans	37,932	24,815	62,747	546,024	608,771	24,815
	$ 39,436	$ 33,144	$ 72,580	$ 2,560,783	$ 2,633,363	$ 26,095
Less net deferred origination fees and premiums					(6,107)	
Loans receivable					$ 2,627,256	

There were $26.3 million $36.2 million in loans past due 90 days or more and still accruing interest as of June 30, 2023 September 30, 2023, and $26.1 million as of December 31, 2022. This is attributed to loans originated through CCBX lending partners which continue to accrue interest up to 120 or 180 days past due. due, dependent on product type. As of June 30, 2023 September 30, 2023 and December 31, 2022, $25.2 million $34.7 million and $25.5 million, respectively, of loans past due 90 days or more are covered by credit enhancements provided by our CCBX partners that protect the Bank against losses.

The accrual of interest on community bank loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when they are 90 days past due as to either principal or interest, unless they are well secured and in the process of collection. Installment/closed-end, and revolving/open-end consumer loans originated through CCBX lending partners will continue to accrue interest until 120 and 180 days past due, respectively and an allowance is recorded through provision expense for these expected losses. For installment/closed-end and revolving/open-end consumer loans originated through CCBX lending partners with balances outstanding beyond 120 days and 180 days past due, respectively, principal and capitalized interest outstanding is charged off against the allowance and accrued interest outstanding is reversed against interest income. These consumer loans are reported as nonperforming/substandard, 90 days or more days past due and still accruing.

When loans are placed on nonaccrual status, all accrued interest is reversed from current period earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is removed, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

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An analysis of nonaccrual loans by category consisted of the following at the periods indicated:

	June 30, 2023		December 31, 2022	September 30, 2023		December 31, 2022
	Total Nonaccrual	Nonaccrual with No ACL	Total Nonaccrual	Total Nonaccrual	Nonaccrual with No ACL	Total Nonaccrual
	(dollars in thousands; unaudited)			(dollars in thousands; unaudited)		
Community Bank						
Commercial and industrial loans	$ 5	$ 5	$ 113	$ 2	$ 2	$ 113
Real estate loans:						
Construction, land and land development	66	66	66	—	—	66
Residential real estate	186	186	—	176	176	—
Commercial real estate	7,142	7,142	6,901	7,145	7,145	6,901
Total nonaccrual loans	$ 7,399	$ 7,399	$ 7,080	$ 7,323	$ 7,323	$ 7,080

In some circumstances, the Company modifies loans in response to borrower financial difficulty, and generally provides for a temporary modification of loan repayment terms. In order for a modified loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow for an extended period of time, usually at least six months in duration.

No loans were modified for borrowers experiencing financial difficulty in the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

Credit Quality and Credit Risk

Federal regulations require that the Company periodically evaluate the risks inherent in its loan portfolio. In addition, the Company's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. The Company establishes loan grades for loans at the origination of the loan. Changes to community bank loan grades are considered at the time new information about the performance of a loan becomes available, including the receipt of updated financial information from the borrower and after loan reviews. For consumer loans, the Bank follows the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy for subsequent classification in the event of payment delinquencies or default. Typically, an individual loan grade will not be changed from the prior period unless there is a specific indication of credit deterioration or improvement. Credit deterioration is evidenced by delinquency, direct communications with the borrower or other borrower information that becomes known to management. Credit improvements are evidenced by known facts regarding the borrower or the collateral property. The Company classifies some loans as Watch or Other Loans Especially Mentioned ("OLEM"). Loans classified as Watch are performing assets but have elements of risk that require more monitoring than other performing loans and are reported in the OLEM column in the following table. Loans classified as OLEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring. There are three classifications for problem loans: Substandard, Doubtful, and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Revolving (open-ended loans, such as credit cards) and installment (closed end) consumer loans originated through CCBX partners continue to accrue interest until they are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards) and are classified as substandard. Doubtful loans have the weaknesses of loans classified as Substandard, with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions, and values. There is a high possibility of loss in loans classified as Doubtful. A loan classified as Loss is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as Loss, it must be charged-off, meaning the amount of the loss is charged against the allowance for credit losses, thereby reducing that reserve.

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Management considers the guidance in ASC 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination. As of March 31, 2023 September 30, 2023 and December 31, 2022, based on the most recent analysis performed, the risk category of community bank loans by year of origination is as follows:

Community Bank		Term Loans Amortized Cost Basis by Origination Year								
		2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
		(dollars in thousands; unaudited)								
As of June 30, 2023										
As of September 30, 2023										
Commercial and industrial loans	Commercial and industrial loans									
Risk rating	Risk rating									
Pass	Pass	$11,366	$59,094	$16,891	$11,560	$14,313	$1,956	$35,414	$ 1,282	$151,876
Other Loan Especially Mentioned	Other Loan Especially Mentioned	—	—	—	122	—	—	3,075	—	3,197
Substandard	Substandard	—	—	—	—	—	5	—	—	5
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total commercial and industrial loans - All other commercial and industrial loans	Total commercial and industrial loans - All other commercial and industrial loans	$11,366	$59,094	$16,891	$11,682	$14,313	$1,961	$38,489	$ 1,282	$155,078
Current period gross write-offs	Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ 46	$ —	$ —	$ 46
Real estate loans - Construction, land and land development loans	Real estate loans - Construction, land and land development loans									
Risk rating	Risk rating									
Pass	Pass	$33,017	$64,143	$77,446	$ 3,329	$ 929	$1,640	$ 63	$ —	$180,567
Other Loan Especially Mentioned	Other Loan Especially Mentioned	—	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	3,148	2,325	—	66	600	—	6,139
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—

Community Bank	Term Loans Amortized Cost Basis by Origi			
	2023	2022	2021	2020
	(dollars in thou			
As of September 30, 2023				
Commercial and industrial loans				
Risk rating				
Pass	$12,798	$58,178	$16,236	$10,911
Other Loan Especially Mentioned	—	—	—	117
Substandard	—	—	—	—
Doubtful	—	—	—	—
Total commercial and industrial loans - All other commercial and industrial loans	$12,798	$58,178	$16,236	$11,028
Current period gross write-offs	$ —	$ —	$ —	$ —
Real estate loans - Construction, land and land development loans				
Risk rating				
Pass	$53,348	$59,253	$42,564	$ 3,103
Other Loan Especially Mentioned	—	—	444	—
Substandard	—	—	3,148	2,325
Doubtful	—	—	—	—

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Total real estate loans - Construction, land and land development loans	$33,017	$64,143	$80,594	$ 5,654	$ 929	$1,706	$ 663	$ —	$186,706
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Total real estate loans - Construction, land and land development loans	$53,348	$59,253	$46,156	$ 5,428	$
Current period gross write-offs	$ —	$ —	$ —	$ —	$

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Community Bank	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	(dollars in thousands; unaudited)								
As of September 30, 2023									
Real estate loans - Residential real estate loans									
Risk rating									
Pass	$ 13,210	$ 44,823	$ 39,501	$ 30,636	$ 32,348	$ 25,474	$23,673	$ —	$ 209,665
Other Loan Especially Mentioned	—	—	2,033	38	—	44	—	—	2,115
Substandard	—	—	—	—	—	—	186	—	186
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Residential real estate loans	$ 13,210	$ 44,823	$ 41,534	$ 30,674	$ 32,348	$ 25,518	$23,859	$ —	$ 211,966
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate loans - Commercial real estate loans									
Risk rating									
Pass	$115,932	$286,253	$216,672	$147,000	$128,302	$238,734	$ 7,669	$ 1,749	$1,142,311

Community Bank	Term Loans Amortized Cost Ba		
	2023	2022	2021
As of September 30, 2023			
Real estate loans - Residential real estate loans			
Risk rating			
Pass	$ 30,510	$ 41,717	$ 39,545
Other Loan Especially Mentioned	—	1,102	2,028
Substandard	—	—	—
Doubtful	—	—	—
Total real estate loans - Residential real estate loans	$ 30,510	$ 42,819	$ 41,573
Current period gross write-offs	$ —	$ —	$ —
Real estate loans - Commercial real estate loans			
Risk rating			
Pass	$195,094	$298,253	$201,342

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total		2023	2022	2021	20
Other Loan Especially Mentioned	—	3,288	2,212	178	511	7,528	87	—	13,804	Other Loan Especially Mentioned	—	3,273	6,045	
Substandard	—	—	—	923	6,901	—	149	—	7,973	Substandard	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	Doubtful	—	—	—	
Total real estate loans - Commercial real estate loans	$115,932	$289,541	$218,884	$148,101	$135,714	$246,262	$ 7,905	$ 1,749	$1,164,088	Total real estate loans - Commercial real estate loans	$195,094	$301,526	$207,387	$14
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	Current period gross write-offs	$ —	$ —	$ —	$

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Community Bank	Term Loans Amortized Cost Basis by Origination Year									Community Bank	Term Loans Amortized Cost Bas			
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total		2023	2022	2021	20
	(dollars in thousands; unaudited)													(do
As of September 30, 2023										**As of September 30, 2023**				
Consumer and other loans - Other consumer and other loans										Consumer and other loans - Other consumer and other loans				
Risk rating										Risk rating				
Pass	$ 20	$ 299	$ 9	$ 697	$ 54	$ 229	$ 149	$ —	$ 1,457	Pass	$ 1,088	$ 286	$ 7	$
Other Loan Especially Mentioned	—	—	—	—	—	—	—	—	—	Other Loan Especially Mentioned	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	Substandard	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	Doubtful	—	—	—	
Total consumer and other loans - Other consumer and other loans	$ 20	$ 299	$ 9	$ 697	$ 54	$ 229	$ 149	$ —	$ 1,457	Total consumer and other loans - Other consumer and other loans	$ 1,088	$ 286	$ 7	$
Current period gross write-offs	$ 13	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 13	Current period gross write-offs	$ 16	$ —	$ —	$

Total community bank loans receivable	Total community bank loans receivable										Total community bank loans receivable				
Risk rating	Risk rating										Risk rating				
Pass	Pass	$173,545	$454,612	$350,519	$193,222	$175,946	$268,033	$66,968	$ 3,031	$1,685,876	Pass	$292,838	$457,687	$299,694	$191
Other Loan Especially Mentioned	Other Loan Especially Mentioned	—	3,288	4,245	338	511	7,572	3,162	—	19,116	Other Loan Especially Mentioned	—	4,375	8,517	
Substandard	Substandard	—	—	3,148	3,248	6,901	71	935	—	14,303	Substandard	—	—	3,148	3
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—	Doubtful	—	—	—	
Total community bank loans	Total community bank loans	$173,545	$457,900	$357,912	$196,808	$183,358	$275,676	$71,065	$ 3,031	$1,719,295	Total community bank loans	$292,838	$462,062	$311,359	$194
Current period gross write-offs	Current period gross write-offs	$ 13	$ —	$ —	$ —	$ —	$ 46	$ —	$ —	$ 59	Current period gross write-offs	$ 16	$ —	$ —	$

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The Company considers the performance of the CCBX loan portfolio and its impact on the allowance for credit losses. For CCBX loans, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the loans in CCBX based on payment activity:

CCBX		Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total	CCBX	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	R
		(dollars in thousands; unaudited)										(dollars in thousands; unaudited)							
As of June 30, 2023																			
As of September 30, 2023											As of September 30, 2023								
Commercial and industrial loans - Capital call lines	Commercial and industrial loans - Capital call lines										Commercial and industrial loans - Capital call lines								
Payment performance	Payment performance										Payment performance								
Performing	Performing	$ —	$ —	$—	$—	$—	$—	$138,428	$ —	$138,428	Performing	$ —	$ —	$—	$—	$—	$—	$114,174	$
Nonperforming	Nonperforming	—	—	—	—	—	—	—	—	—	Nonperforming	—	—	—	—	—	—	—	
Total commercial and industrial loans - Capital call lines	Total commercial and industrial loans - Capital call lines	$ —	$ —	$—	$—	$—	$—	$138,428	$ —	$138,428	Total commercial and industrial loans - Capital call lines	$ —	$ —	$—	$—	$—	$—	$114,174	$
Current period gross write-offs	Current period gross write-offs	$ —	$ —	$—	$—	$—	$—	$ —	$ —	$ —	Current period gross write-offs	$ —	$ —	$—	$—	$—	$—	$ —	$

Commercial and industrial loans - All other commercial and industrial loans	Commercial and industrial loans - All other commercial and industrial loans										Commercial and industrial loans - All other commercial and industrial loans								
Payment performance	Payment performance										Payment performance								
Performing	Performing	$43,964	$13,406	$68	$32	$—	$—	$ 2,045	$ —	$ 59,515	Performing	$47,770	$7,542	$14	$29	$—	$—	$ 2,127	$
Nonperforming	Nonperforming	405	312	—	—	—	—	91	—	808	Nonperforming	629	393	—	—	—	—	365	
Total commercial and industrial loans - All other commercial and industrial loans	Total commercial and industrial loans - All other commercial and industrial loans	$44,369	$13,718	$68	$32	$—	$—	$ 2,136	$ —	$ 60,323	Total commercial and industrial loans - All other commercial and industrial loans	$48,399	$7,935	$14	$29	$—	$—	$ 2,492	$
Current period gross write-offs	Current period gross write-offs	$ 124	$ 1,005	$12	$—	$—	$—	$ —	$ —	$ 1,141	Current period gross write-offs	$ 1,377	$2,012	$12	$—	$—	$—	$ 68	$
Real estate loans - Residential real estate loans	Real estate loans - Residential real estate loans										Real estate loans - Residential real estate loans								
Payment performance	Payment performance										Payment performance								
Performing	Performing	$ —	$ —	$—	$—	$—	$—	$158,277	$91,214	$249,491	Performing	$ —	$ —	$—	$—	$—	$—	$185,484	$
Nonperforming	Nonperforming	—	—	—	—	—	—	1,722	—	1,722	Nonperforming	—	—	—	—	—	—	1,462	
Total real estate loans - Residential real estate loans	Total real estate loans - Residential real estate loans	$ —	$ —	$—	$—	$—	$—	$159,999	$91,214	$251,213	Total real estate loans - Residential real estate loans	$ —	$ —	$—	$—	$—	$—	$186,946	$
Current period gross write-offs	Current period gross write-offs	$ —	$ —	$—	$—	$—	$—	$ 1,682	$ —	$ 1,682	Current period gross write-offs	$ —	$ —	$—	$—	$—	$—	$ 3,158	$

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	Term Loans Amortized Cost Basis by Origination Year										Term Loans Amortized Cost Basis by Originat					
CCBX										CCBX		2023	2022	2021	2020	201
		2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total						(dollars in thou
(dollars in thousands; unaudited)																
As of September 30, 2023											As of September 30, 2023					
Consumer and other loans - Credit cards	Consumer and other loans - Credit cards										Consumer and other loans - Credit cards					
Payment performance	Payment performance										Payment performance					

Performing	Performing	$ —	$ —	$ —	$ —	$ —	$ —	$361,251	$ 85	$ 361,336	Performing	$ —	$ —	$ —	$ —	$ —
Nonperforming	Nonperforming	—	—	—	—	—	—	18,306	—	18,306	Nonperforming	—	—	—	—	—
Total consumer and other loans - Credit cards	Total consumer and other loans - Credit cards	$ —	$ —	$ —	$ —	$ —	$ —	$379,557	$ 85	$ 379,642	Total consumer and other loans - Credit cards	$ —	$ —	$ —	$ —	$ —
Current period gross write-offs	Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 23,391	$ —	$ 23,391	Current period gross write-offs	$ —	$ —	$ —	$ —	$ —
Consumer and other loans - Other consumer and other loans	Consumer and other loans - Other consumer and other loans										Consumer and other loans - Other consumer and other loans					
Payment performance	Payment performance										Payment performance					
Performing	Performing	$256,287	$161,341	$24,233	$202	$755	$512	$ 16,538	$ —	$ 459,868	Performing	$215,136	$64,148	$8,753	$106	$51
Nonperforming	Nonperforming	657	2,560	706	15	19	17	1,518	—	5,492	Nonperforming	2,687	3,405	788	10	2
Total consumer and other loans - Other consumer and other loans	Total consumer and other loans - Other consumer and other loans	$256,944	$163,901	$24,939	$217	$774	$529	$ 18,056	$ —	$ 465,360	Total consumer and other loans - Other consumer and other loans	$217,823	$67,553	$9,541	$116	$54
Current period gross write-offs	Current period gross write-offs	$ 1,888	$ 26,708	$ 7,673	$ 49	$182	$121	$ 3,572	$ —	$ 40,193	Current period gross write-offs	$ 8,232	$35,329	$9,702	$ 74	$27
Total CCBX loans receivable	Total CCBX loans receivable										Total CCBX loans receivable					
Payment performance	Payment performance										Payment performance					
Performing	Performing	$300,251	$174,747	$24,301	$234	$755	$512	$676,539	$91,299	$1,268,638	Performing	$262,906	$71,690	$8,767	$135	$51
Nonperforming	Nonperforming	1,062	2,872	706	15	19	17	21,637	—	26,328	Nonperforming	3,316	3,798	788	10	2
Total CCBX loans	Total CCBX loans	$301,313	$177,619	$25,007	$249	$774	$529	$698,176	$91,299	$1,294,966	Total CCBX loans	$266,222	$75,488	$9,555	$145	$54
Current period gross write-offs	Current period gross write-offs	$ 2,012	$ 27,713	$ 7,685	$ 49	$182	$121	$ 28,645	$ —	$ 66,407	Current period gross write-offs	$ 9,609	$37,341	$9,714	$ 74	$27

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Loans by credit quality risk rating are as follows as of the periods indicated:

		Pass	Other Loans Especially Mentioned	Sub-Standard	Doubtful	Total		Pass	Other Loans Especially Mentioned	Sub-Standard	Doubtful	Total
Consolidated							**Consolidated**					
		(dollars in thousands; unaudited)						(dollars in thousands; unaudited)				
December 31, 2022	**December 31, 2022**						**December 31, 2022**					
Commercial and industrial loans	Commercial and industrial loans	$ 304,840	$ 7,219	$ 569	$ —	$ 312,628	Commercial and industrial loans	$ 304,840	$ 7,219	$ 569	$ —	$ 312,628
Real estate loans:	Real estate loans:						Real estate loans:					

Construction, land, and land development	Construction, land, and land development	206,304	7,685	66	—	214,055	Construction, land, and land development	206,304	7,685	66	—	214,055
Residential real estate	Residential real estate	448,185	96	876	—	449,157	Residential real estate	448,185	96	876	—	449,157
Commercial real estate	Commercial real estate	1,030,650	11,201	6,901	—	1,048,752	Commercial real estate	1,030,650	11,201	6,901	—	1,048,752
Consumer and other loans	Consumer and other loans	583,956	—	24,815	—	608,771	Consumer and other loans	583,956	—	24,815	—	608,771
		$ 2,573,935	$ 26,201	$ 33,227	$ —	2,633,363		$ 2,573,935	$ 26,201	$ 33,227	$ —	2,633,363
Less net deferred origination fees	Less net deferred origination fees					(6,107)	Less net deferred origination fees					(6,107)
Loans receivable	Loans receivable					$ 2,627,256	Loans receivable					$ 2,627,256

Allowance for Credit Losses ("ACL")

On January 1, 2023, the Company adopted ASU 2016-13, which replaces the incurred loss methodology with an expected loss methodology that is referred to as CECL. See Note 1, Description of Business and Summary of Significant Accounting Policies. As a result of implementing CECL, there was a one-time adjustment to the 2023 opening allowance balance of $3.9 million.

CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for credit losses. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by reimbursing most losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for CCBX credit losses and provision for unfunded commitments are recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements). Expected losses are recorded in the allowance for credit losses. The credit enhancement asset is reduced when credit enhancement payments are received from the CCBX partner or taken from the partner's cash reserve account. CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by reimbursing the Bank for the losses. If the partner is unable to fulfill their contracted obligations then the Bank could be exposed to the loss of the reimbursement and credit enhancement income. In accordance with the program agreement for one CCBX partner, the Company is responsible for credit losses on approximately 10% of a $180.5 $231.9 million loan portfolio that are without credit enhancement reimbursements. At June 30, 2023 September 30, 2023, 10% of this portfolio represented $18.0 $23.2 million in loans. The partner is responsible for reimbursing credit losses on approximately 90% of this portfolio and for fraud losses on 100% of this portfolio. The Company earns 100% of the interest income on the aforementioned $18.0 $23.2 million of loans.

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The following tables summarize the allocation of the ACL, as well as the activity in the ACL attributed to various segments in the loan portfolio, as of and for the three and six nine months ended June 30, 2023 September 30, 2023 and the allocation and activity of the loans and allowance for loan losses ("ALLL ") attributed to the various segments in the loan portfolio for the three and six nine months ended June 30, 2022 September 30, 2022:

	Commercial and Industrial	Construction, Land, and Land Development	Residential Real Estate	Commercial Real Estate	Consumer and Other	Unallocated	Total		Commercial and Industrial	Construction, Land, and Land Development	Residential Real Estate	Commercial Real Estate	Consumer and Other	Unallocated	Total
	(dollars in thousands; unaudited)								(dollars in thousands; unaudited)						
Three Months Ended June 30, 2023															
ACL balance, March 31, 2023	$ 8,651	$ 5,744	$ 6,986	$ 7,506	$ 60,236	$ —	$ 89,123								
Three Months Ended September 30, 2023								**Three Months Ended September 30, 2023**							
ACL balance, June 30, 2023								ACL balance, June 30, 2023	$ 9,551	$ 6,539	$ 8,849	$ 6,952	$ 78,871	$ —	$110,762
Provision for credit losses or (recapture)	1,311	795	2,808	(554)	48,238	—	52,598	Provision for credit losses or (recapture)	2,771	132	3,517	456	20,281	—	27,157
	9,962	6,539	9,794	6,952	108,474	—	141,721		12,322	6,671	12,366	7,408	99,152	—	137,919
Loans charged-off	(411)	—	(945)	—	(30,943)	—	(32,299)	Loans charged-off	(2,328)	—	(1,476)	—	(34,075)	—	(37,879)

Recoveries of loans previously charged-off	Recoveries of loans previously charged-off	—	—	—	—	1,340	—	1,340	Recoveries of loans previously charged-off	1	—	2	—	1,042	—	1,045
Net charge-offs	Net charge-offs	(411)	—	(945)	—	(29,603)	—	(30,959)	Net charge-offs	(2,327)	—	(1,474)	—	(33,033)	—	(36,834)
ACL balance, June 30, 2023		$ 9,551	$ 6,539	$ 8,849	$ 6,952	$ 78,871	$ —	$ 110,762								
ACL balance, September 30, 2023									ACL balance, September 30, 2023	$ 9,995	$ 6,671	$ 10,892	$ 7,408	$ 66,119	$ —	$101,085
Six Months Ended June 30, 2023																
Nine Months Ended September 30, 2023									**Nine Months Ended September 30, 2023**							
ALLL balance, December 31, 2022	ALLL balance, December 31, 2022	$ 4,831	$ 7,425	$ 4,142	$ 5,470	$ 50,996	$ 1,165	$ 74,029	ALLL balance, December 31, 2022	$ 4,831	$ 7,425	$ 4,142	$ 5,470	$ 50,996	$ 1,165	$ 74,029
Impact of adopting CECL (ASC 326)	Impact of adopting CECL (ASC 326)	1,428	(1,589)	1,623	1,240	2,315	(1,165)	$ 3,852	Impact of adopting CECL (ASC 326)	1,428	(1,589)	1,623	1,240	2,315	(1,165)	$ 3,852
Provision for credit losses or (recapture)	Provision for credit losses or (recapture)	4,476	703	4,766	242	85,955		96,142	Provision for credit losses or (recapture)	7,247	835	8,283	698	106,236		123,299
		10,735	6,539	10,531	6,952	139,266	—	174,023		13,506	6,671	14,048	7,408	159,547	—	201,180
Loans charged-off	Loans charged-off	(1,187)	—	(1,682)	—	(63,597)	—	(66,466)	Loans charged-off	(3,515)	—	(3,158)	—	(97,672)	—	(104,345)
Recoveries of loans previously charged-off	Recoveries of loans previously charged-off	3	—	—	—	3,202	—	3,205	Recoveries of loans previously charged-off	4	—	2	—	4,244	—	4,250
Net charge-offs	Net charge-offs	(1,184)	—	(1,682)	—	(60,395)	—	(63,261)	Net charge-offs	(3,511)	—	(3,156)	—	(93,428)	—	(100,095)
ACL balance, June 30, 2023		$ 9,551	$ 6,539	$ 8,849	$ 6,952	$ 78,871	$ —	$ 110,762								
ACL balance, September 30, 2023									ACL balance, September 30, 2023	$ 9,995	$ 6,671	$ 10,892	$ 7,408	$ 66,119	$ —	$101,085
Three Months Ended June 30, 2022																
ALLL balance, March 31, 2022		$ 3,514	$ 7,592	$ 5,758	$ 5,317	$ 15,114	$ 1,475	$ 38,770								
Three Months Ended September 30, 2022									**Three Months Ended September 30, 2022**							
ALLL balance, June 30, 2022									ALLL balance, June 30, 2022	$ 4,066	$ 7,999	$ 7,171	$ 4,740	$ 23,810	$ 1,572	$ 49,358
Provision for loan losses or (recapture)	Provision for loan losses or (recapture)	550	407	1,413	(577)	12,204	97	14,094	Provision for loan losses or (recapture)	298	(145)	2,260	(215)	16,402	(172)	18,428
		4,064	7,999	7,171	4,740	27,318	1,572	52,864		4,364	7,854	9,431	4,525	40,212	1,400	67,786
Loans charged-off	Loans charged-off	(33)	—	—	—	(3,509)	—	(3,542)	Loans charged-off	(360)	—	(105)	—	(8,048)	—	(8,513)
Recoveries of loans previously charged-off	Recoveries of loans previously charged-off	35	—	—	—	1	—	36	Recoveries of loans previously charged-off	2	—	—	—	7	—	9

Net (charge-offs) recoveries	Net (charge-offs) recoveries	2	—	—	—	(3,508)	—	(3,506)	Net (charge-offs) recoveries	(358)	—	(105)	—	(8,041)	—	(8,504)
Balance, June 30, 2022		$ 4,066	$ 7,999	$ 7,171	$ 4,740	$ 23,810	$ 1,572	$ 49,358								
Balance, September 30, 2022									Balance, September 30, 2022	$ 4,006	$ 7,854	$ 9,326	$ 4,525	$ 32,171	$ 1,400	$ 59,282
Six Months Ended June 30, 2022																
Nine Months Ended September 30, 2022									**Nine Months Ended September 30, 2022**							
ALLL Balance, December 31, 2021	ALLL Balance, December 31, 2021	$ 3,221	$ 6,984	$ 4,598	$ 6,590	$ 7,092	$ 147	$ 28,632	ALLL Balance, December 31, 2021	$ 3,221	$ 6,984	$ 4,598	$ 6,590	$ 7,092	$ 147	$ 28,632
Provision for credit losses or (recapture)	Provision for credit losses or (recapture)	846	1,015	2,573	(1,850)	23,027	1,425	27,036	Provision for credit losses or (recapture)	1,144	870	4,833	(2,065)	39,429	1,253	45,464
		4,067	7,999	7,171	4,740	30,119	1,572	55,668		4,365	7,854	9,431	4,525	46,521	1,400	74,096
Loans charged-off	Loans charged-off	(38)	—	—	—	(6,312)	—	(6,350)	Loans charged-off	(398)	—	(105)	—	(14,360)	—	(14,863)
Recoveries of loans previously charged-off	Recoveries of loans previously charged-off	37	—	—	—	3	—	40	Recoveries of loans previously charged-off	39	—	—	—	10	—	49
Net charge-offs	Net charge-offs	(1)	—	—	—	(6,309)	—	(6,310)	Net charge-offs	(359)	—	(105)	—	(14,350)	—	(14,814)
ALLL Balance, June 30, 2022		$ 4,066	$ 7,999	$ 7,171	$ 4,740	$ 23,810	$ 1,572	$ 49,358								
ALLL Balance, September 30, 2022									ALLL Balance, September 30, 2022	$ 4,006	$ 7,854	$ 9,326	$ 4,525	$ 32,171	$ 1,400	$ 59,282

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The following table summarizes the allocation of the allowance for loan losses attributed to various segments in the loan portfolio as of December 31, 2022.

	Commercial and Industrial	Construction, Land, and Land Development	Residential Real Estate	Commercial Real Estate	Consumer and Other	Unallocated	Total
				(dollars in thousands; unaudited)			
As of December 31, 2022							
ALLL amounts allocated to							
Individually evaluated for impairment	$ 95	$ —	$ —	$ —	$ —	$ —	$ 95
Collectively evaluated for impairment	4,736	7,425	4,142	5,470	50,996	1,165	73,934
ALLL balance, December 31, 2022	$ 4,831	$ 7,425	$ 4,142	$ 5,470	$ 50,996	$ 1,165	$ 74,029
Loans individually evaluated for impairment	$ 113	$ 66	$ —	$ 6,901	$ —		$ 7,080
Loans collectively evaluated for impairment	312,515	213,989	449,157	1,041,851	608,771		2,626,283
Loans receivable balance, December 31, 2022	$ 312,628	$ 214,055	$ 449,157	$ 1,048,752	$ 608,771		$ 2,633,363

The following table presents the collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans:

	June 30, 2023 Real Estate	June 30, 2023 Business Assets	June 30, 2023 Total	June 30, 2023 ACL	September 30, 2023 Real Estate	September 30, 2023 Business Assets	September 30, 2023 Total	September 30, 2023 ACL
	(dollars in thousands; unaudited)				(dollars in thousands; unaudited)			
Commercial and industrial loans	$ —	$ 5	$ 5	$ —	$ —	$ 2	$ 2	$ —
Real estate loans:								
Construction, land and land development	66	—	66	—	—	—	—	—
Residential real estate	186	—	186	—	176	—	176	—
Commercial real estate	7,142	—	7,142	—	7,145	—	7,145	—
Total	$ 7,394	$ 5	$ 7,399	$ —	$ 7,321	$ 2	$ 7,323	$ —

The following table is a summary of information pertaining to impaired loans as of the period indicated. Loans originated through CCBX partners are reported using pool accounting and are not subject to impairment analysis, therefore CCBX loans are not included in this table.

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
	(dollars in thousands; unaudited)				
December 31, 2022					
Commercial and industrial loans	$ 124	$ —	$ 113	$ 113	$ 95
Real estate loans:					
Construction, land and land development	67	66	—	66	—
Commercial real estate	6,901	6,901	—	6,901	—
Total	$ 7,092	$ 6,967	$ 113	$ 7,080	$ 95

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The following tables summarize the Company's average recorded investment and interest income recognized on impaired loans by loan class for the period indicated:

	Three Months Ended June 30, 2022 Average Recorded Investment	Three Months Ended June 30, 2022 Interest Income Recognized	Six Months Ended June 30, 2022 Average Recorded Investment	Six Months Ended June 30, 2022 Interest Income Recognized	Three Months Ended September 30, 2022 Average Recorded Investment	Three Months Ended September 30, 2022 Interest Income Recognized	Six Months Ended September 30, 2022 Average Recorded Investment	Six Months Ended September 30, 2022 Interest Income Recognized
	(dollars in thousands; unaudited)				(dollars in thousands; unaudited)			
Commercial and industrial loans	$ 120	$ —	$ 136	$ —	$ 103	$ —	$ 125	$ —
Real estate loans:								
Construction, land and land development	13	—	9	—	67	—	33	—

Residential real estate	Residential real estate	54	—	54	—	Residential real estate	26	—		41	—		
Commercial real estate									Commercial real estate	38	—	19	—
Total	Total	$ 187	$ —	$ 199	$ —	Total	$ 234	$ —		$ 218	$ —		

Note 5 - Deposits

The composition of consolidated deposits consisted of the following at the periods indicated:

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
		(dollars in thousands; unaudited)			(dollars in thousands; unaudited)	
Demand, noninterest bearing	Demand, noninterest bearing	$ 725,592	$ 775,012	Demand, noninterest bearing	$ 651,786	$ 775,012
NOW and money market	NOW and money market	2,323,164	1,804,399	NOW and money market	2,532,668	1,804,399
Savings	Savings	88,991	107,117	Savings	84,628	107,117
Total core deposits	Total core deposits	3,137,747	2,686,528	Total core deposits	3,269,082	2,686,528
Brokered deposits	Brokered deposits	1	101,546	Brokered deposits	1	101,546
Time deposits less than $250,000	Time deposits less than $250,000	17,437	21,942	Time deposits less than $250,000	15,678	21,942
Time deposits $250,000 and over	Time deposits $250,000 and over	7,387	7,505	Time deposits $250,000 and over	4,939	7,505
Total deposits	Total deposits	$ 3,162,572	$ 2,817,521	Total deposits	$ 3,289,700	$ 2,817,521

The following table presents the maturity distribution of time deposits as of June 30, 2023 September 30, 2023:

(dollars in thousands; unaudited)	As of June 30, 2023 September 30, 2023
Twelve months	$ 20,182 16,351
One to two years	2,248 2,254
Two to three years	1,499 1,142
Three to four years	255 172
Four to five years	640 698
Thereafter	—
	$ 24,824 20,617

Included in total deposits is $240.3 million $296.4 million in IntraFi network reciprocal NOW and money market sweep accounts as of June 30, 2023 September 30, 2023, which provides our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions.

Note 6 - Leases

The Company has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception.

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Operating lease right-of-use ("ROU") assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments arising from the lease. An operating lease ROU asset and operating lease liability will be recognized for any new operating leases at the commencement of the new lease.

The Company's leases do not provide an implicit interest rate, therefore the Company used its incremental collateralized borrowing rates commensurate with the underlying lease terms to determine the present value of operating lease liabilities. The weighted average discount rate as of June 30, 2023 September 30, 2023 was 3.88% 3.98%.

The Company's operating lease agreements contain both lease and non-lease components, which are generally accounted for separately. The Company's lease agreements do not contain any residual value guarantees.

Operating leases with terms of 12 months or less are not included in ROU assets and operating lease liabilities recorded in the Company's consolidated balance sheet. Operating lease terms include options to extend when it is reasonably certain that the Company will exercise such options, determined on a lease-by-lease basis. At June 30, 2023 September 30, 2023, lease expiration dates ranged from 8 5 months to 21.7 21.4 years, with additional renewal options on certain leases typically ranging from 5 to 10 years. At June 30, 2023 September 30, 2023, the weighted average remaining lease term inclusive of renewal options that the Company is reasonably certain to renew for the Company's operating leases was 9.5 9.2 years.

Rental expense for operating leases is recognized on a straight-line basis over the lease term and amounted to $284,000 $292,000 and $642,000, $933,000, respectively, for the three and six nine months ended June 30, 2023 September 30, 2023, and $347,000 $351,000 and $693,000 $1.0 million respectively, for the three and six nine months ended June 30, 2022 September 30, 2022. Variable lease components, such as inflation adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

The following table presents the minimum annual lease payments under the terms of these leases, inclusive of renewal options that the Company is reasonably certain to renew, at June 30, 2023 September 30, 2023:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	June 30, 2023	(dollars in thousands; unaudited)	September 30, 2023
July 1 to December 31, 2023		$ 499		
October 1 to December 31, 2023			October 1 to December 31, 2023	$ 257
2024	2024	986	2024	1,016
2025	2025	943	2025	974
2026	2026	947	2026	977
2027	2027	895	2027	913
2028 and thereafter	2028 and thereafter	3,456	2028 and thereafter	3,456
Total lease payments	Total lease payments	7,726	Total lease payments	7,593
Less: amounts representing interest	Less: amounts representing interest	1,313	Less: amounts representing interest	1,272
Present value of lease liabilities	Present value of lease liabilities	$ 6,413	Present value of lease liabilities	$ 6,321

The following table presents the components of total lease expense and operating cash flows for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		(dollars in thousands; unaudited)					(dollars in thousands; unaudited)			
Lease expense:	**Lease expense:**					**Lease expense:**				
Operating lease expense	Operating lease expense	$ 247	$ 320	$ 568	$ 675	Operating lease expense	$ 251	$ 320	$ 819	$ 961
Variable lease expense	Variable lease expense	52	45	104	87	Variable lease expense	69	52	173	137
Total lease expense (1)	Total lease expense (1)	$ 299	$ 365	$ 672	$ 762	Total lease expense (1)	$ 320	$ 372	$ 992	$ 1,098
Cash paid:	**Cash paid:**					**Cash paid:**				
Cash paid reducing operating lease liabilities	Cash paid reducing operating lease liabilities	$ 313	$ 362	$ 692	$ 756	Cash paid reducing operating lease liabilities	$ 320	$ 371	$ 1,013	$ 1,090

(1) Included in net occupancy expense in the Condensed Consolidated Statements of Income (unaudited).

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Note 7 - Stock-Based Compensation -

Stock Options and Restricted Stock

The 2018 Coastal Financial Corporation Omnibus Plan (2018 Plan) (the "2018 Plan") authorizes the Company to grant awards, including but not limited to, stock options, restricted stock units, and restricted stock awards, to eligible employees, directors or individuals that provide service to the Company, up to an aggregate of 500,000 shares of common stock. On May 24, 2021, the Company's shareholders approved the First Amendment to the 2018 Plan, which increased the authorized plan shares by 600,000. The 2018 Plan replaced the 2006 Plan for new awards. Existing awards will vest under the terms granted and no further awards will be granted under these prior plans. Shares available to be granted under the 2018 plan were 433,297 427,419 at June 30, 2023 September 30, 2023.

Stock Option Awards

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company uses the vesting term and contractual life to determine the expected life. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation expense related to unvested stock option awards is reversed at date of forfeiture. forfeiture.

There were no new stock options granted in the six nine months ended June 30, 2023 September 30, 2023 and 2022.

A summary of stock option activity under the 2018 Plan and 2006 Plan during the six nine months ended June 30, 2023September 30, 2023:

Options	Options	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value	Options	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
		(dollars in thousands, except per share amounts; unaudited)							(dollars in thousands, except per share amounts; unaudited)					
Outstanding at December 31, 2022	Outstanding at December 31, 2022	438,103	$	8.79	4.1	$	16,968	Outstanding at December 31, 2022	438,103	$	8.79	4.1	$	16,968
Granted	Granted	—		—				Granted	—		—			
Exercised	Exercised	(80,104)		7.35		$	2,337	Exercised	(81,744)		7.34		$	2,396
Expired	Expired	—		—				Expired	—		—			
Forfeited	Forfeited	—		—				Forfeited	—		—			
Outstanding at June 30, 2023		357,999	$	9.11	3.9	$	10,216							
Vested or expected to vest at June 30, 2023		357,999	$	9.11	3.9	$	10,216							
Exercisable at June 30, 2023		172,470	$	8.68	3.7	$	4,996							
Outstanding at September 30, 2023								Outstanding at September 30, 2023	356,359	$	9.12	3.7	$	12,040
Vested or expected to vest at September 30, 2023								Vested or expected to vest at September 30, 2023	356,359	$	9.12	3.7	$	12,040
Exercisable at September 30, 2023								Exercisable at September 30, 2023	177,510	$	8.65	3.4	$	6,082

The total or aggregate intrinsic value (which is the amount by which the stock price exceeds the exercise price) of options exercised during the three and six nine months ended June 30, 2023 September 30, 2023 was $62,000 $59,000 and $2.3 million $2.4 million, respectively. The total or aggregate intrinsic value of options exercised during the three and six nine months ended June 30, 2022 September 30, 2022 was $302,000 $186,000 and $1.4 million $1.6 million, respectively.

As of June 30, 2023 September 30, 2023, there was $922,000 $861,000 of total unrecognized compensation cost related to nonvested stock options granted under the 2018 Plan and 2006 Plan. Total unrecognized compensation costs are adjusted for unvested forfeitures. The Company expects to recognize that cost over a remaining weighted-average period of approximately 4.1 3.9 years. Compensation expense recorded related to stock options was $60,000 $61,000 and $200,000 $261,000 respectively, for the three and six nine months ended June 30, 2023 September 30, 2023 and $68,000 $65,000 and $188,000 $253,000 respectively, for the three and six nine months ended June 30, 2022 September 30, 2022.

Restricted Stock Units

In the first quarter of 2023, the Company granted 73,611 restricted stock units ("RSUs") under the 2018 Plan to employees, which vest ratably over 4 years and 1,084 restricted stock units RSUs to an employee which vest ratably over 5 years. In the second quarter of 2023, the Company granted 9,827 restricted stock units RSUs to employees, which vest ratably over 5 years. In the third quarter of

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2023, the Company granted 4,000 RSUs to employees which vest ratably over 3 years and 2,150 RSUs which vest ratably over 5 years.

RSUs provide for an interest in Company common stock to the recipient, the underlying stock is not issued until certain conditions are met. Vesting requirements include time-based, performance-based, or market-based conditions. Recipients of RSUs do not pay any cash consideration to the Company for the units and the holders of the restricted units do not have voting rights. The fair value of time-based and performance-based units is equal to the fair market value of the Company's common stock on the grant date. The fair value of market-based units is estimated on the grant date using the Monte Carlo simulation model. Compensation expense is recognized over the vesting period that the awards are based. RSUs are nonparticipating securities.

As of June 30, 2023 September 30, 2023, there was $10.7 million $10.2 million of total unrecognized compensation cost related to nonvested RSUs. The Company expects to recognize that cost over the remaining weighted-average vesting period of approximately 4.2 3.9 years. Compensation expense recorded related to RSUs was $688,000 $735,000 and $1.5 million $2.2 million respectively, for the three and six nine months ended June 30, 2023 September 30, 2023 and $453,000 $518,000 and $827,000 $1.3 million respectively, for the three and six nine months ended June 30, 2022 September 30, 2022.

A summary of the Company's nonvested RSUs at June 30, 2023 September 30, 2023 and changes during the six nine month period is presented below:

Nonvested shares - RSUs	Nonvested shares - RSUs	Shares	Weighted-Average Grant Date Fair Value	Total or Aggregate Intrinsic Value	Nonvested shares - RSUs	Shares	Weighted-Average Grant Date Fair Value	Total or Aggregate Intrinsic Value
		(dollars in thousands, except per share amounts; unaudited)				(dollars in thousands, except per share amounts; unaudited)		
Nonvested shares at December 31, 2022	Nonvested shares at December 31, 2022	380,151	$ 28.61	$ 7,187	Nonvested shares at December 31, 2022	380,151	$ 28.61	$ 7,187
Granted	Granted	84,522	$ 42.57		Granted	90,672	$ 42.61	
Forfeited	Forfeited	(8,535)	$ 38.41		Forfeited	(8,807)	$ 38.62	
Vested	Vested	(46,020)	$ 30.56		Vested	(46,020)	$ 30.56	
Nonvested shares at June 30, 2023		410,118	$ 31.07	$ 2,700				
Nonvested shares at September 30, 2023					Nonvested shares at September 30, 2023	415,996	$ 31.23	$ 4,857

Restricted Stock Awards

Employees

There were no new restricted stock awards granted in the six nine months ended June 30, 2023 September 30, 2023. The fair value of restricted stock awards is equal to the fair value of the Company's stock at the date of grant. Compensation expense is recognized over the vesting period that the awards are based. Restricted stock awards are participating securities.

As of June 30, 2023 September 30, 2023, there was $41,000 $39,000 of total unrecognized compensation cost related to nonvested restricted stock awards. The Company expects to recognize that cost over the remaining weighted-average vesting period of approximately 4.6 4.3 years. Compensation expense recorded related to restricted stock awards was $2,000 and $4,000 $7,000 respectively, for the three and six nine months ended June 30, 2023 September 30, 2023 and $2,000 and $4,000 $7,000 respectively, for the three and six nine months ended June 30, 2022 September 30, 2022.

Director's Stock Compensation

Under the 2018 Plan, eligible directors are granted stock with a total market value of approximately $45,000, and the Board Chair is granted stock with a total market value of approximately $75,000. Committee chairs receive additional stock in an amount that varies depending upon the nature and frequency of the committee meetings. The audit committee chair receives additional stock with a market value of approximately $10,000, non-financial risk and compensation committee chairs receive additional stock with a market value of approximately $7,500, and the asset liability & investment, credit and nominating & governance chairs receive additional stock with a market value of approximately $5,000. Stock is granted as of each annual meeting date and vest one day prior to the next annual meeting date. During the vesting period, the grants are considered participating securities.

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As of June 30, 2023 September 30, 2023, there was $433,000 $313,000 of total unrecognized compensation expense related to director restricted stock awards which the Company expects to recognize over the remaining average vesting period of approximately 11 eight months. Director compensation expense recorded related to the 2018 Plan totaled $96,000 $120,000 and $192,000 respectively, for

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the three and six months ended June 30, 2023 and $60,000 and $98,000 $312,000 respectively, for the three and six nine months ended June 30, 2022 September 30, 2023 and $98,000 and $196,000 respectively, for the three and nine months ended September 30, 2022.

A summary of the Company's nonvested shares at June 30, 2023 September 30, 2023 and changes during the six-month nine-month period is presented below:

Nonvested shares - RSAs	Nonvested shares - RSAs	Shares	Weighted-Average Grant Date Fair Value	Total or Aggregate Intrinsic Value	Nonvested shares - RSAs	Shares	Weighted-Average Grant Date Fair Value	Total or Aggregate Intrinsic Value
		(dollars in thousands, except per share amounts; unaudited)				(dollars in thousands, except per share amounts; unaudited)		
Nonvested shares at December 31, 2022	Nonvested shares at December 31, 2022	13,396	$ 32.94	$ 195	Nonvested shares at December 31, 2022	13,396	$ 32.94	$ 195
Granted	Granted	13,538	$ 35.10		Granted	13,538	$ 35.10	
Forfeited	Forfeited	—	$ —		Forfeited	—	$ —	
Vested	Vested	(10,896)	$ 36.41		Vested	(10,896)	$ 36.41	
Nonvested shares at June 30, 2023		16,038	$ 32.41	$ 84				
Nonvested shares at September 30, 2023					Nonvested shares at September 30, 2023	16,038	$ 32.41	$ 168

Note 8 - Fair Value Measurements

The following tables present estimated fair values of the Company's financial instruments as of the period indicated, whether or not recognized or recorded in the consolidated balance sheets at the period indicated:

		June 30, 2023		Fair Value Measurements Using				September 30, 2023		Fair Value Measurements Using		
		Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3		Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
		(dollars in thousands; unaudited)						(dollars in thousands; unaudited)				
Financial assets	Financial assets						Financial assets					
Cash and due from banks	Cash and due from banks	$ 29,783	$ 29,783	$ 29,783	$ —	$ —	Cash and due from banks	$ 29,984	$ 29,984	$ 29,984	$ —	$ —
Interest earning deposits with other banks	Interest earning deposits with other banks	245,277	245,277	245,277	—	—	Interest earning deposits with other banks	444,962	444,962	444,962	—	—
Investment securities	Investment securities	110,730	110,326	97,871	12,455	—	Investment securities	141,489	139,802	98,644	41,158	—
Other investments	Other investments	12,037	12,037	—	9,465	2,572	Other investments	11,898	11,898	—	9,326	2,572
Loans held for sale		35,923	35,923	—	35,923							
Loans receivable	Loans receivable	3,007,553	2,953,342	—	—	2,953,342	Loans receivable	2,967,035	2,819,602	—	—	2,819,602
Accrued interest receivable	Accrued interest receivable	21,581	21,581	—	21,581	—	Accrued interest receivable	23,428	23,428	—	23,428	—

Financial liabilities	Financial liabilities						Financial liabilities					
Deposits	Deposits	$ 3,162,572	3,161,753	$ —	$ 3,161,753	$ —	Deposits	$ 3,289,700	3,289,038	$ —	$ 3,289,038	$ —
Subordinated debt	Subordinated debt	44,069	42,861	—	42,861	—	Subordinated debt	44,106	42,329	—	42,329	—
Junior subordinated debentures	Junior subordinated debentures	3,589	3,489	—	3,489	—	Junior subordinated debentures	3,589	3,498	—	3,498	—
Accrued interest payable	Accrued interest payable	766	766	—	766	—	Accrued interest payable	1,056	1,056	—	1,056	—

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	December 31, 2022		Fair Value Measurements Using		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
	(dollars in thousands; unaudited)				
Financial assets					
Cash and due from banks	$ 32,722	$ 32,722	$ 32,722	$ —	$ —
Interest earning deposits with other banks	309,417	309,417	309,417	—	—
Investment securities	98,353	98,233	97,015	1,218	—
Other investments	10,555	10,555	—	7,983	2,572
Loans receivable, net	2,627,256	2,580,183	—	—	2,580,183
Accrued interest receivable	17,815	17,815	—	17,815	—
Financial liabilities					
Deposits	$ 2,817,521	$ 2,816,602	$ —	$ 2,816,602	$ —
Subordinated debt	43,999	42,743	—	42,743	—
Junior subordinated debentures	3,588	3,484	—	3,484	—
Accrued interest payable	684	684	—	684	—

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as 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 (that is, not a forced liquidation or distressed sale). GAAP establishes a consistent framework for measuring fair value and disclosure requirements about fair value measurements. Among other things, the accounting standard requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical instruments. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2 – Observable inputs other than Level 1 including quoted prices in active markets for similar instruments, quoted prices in less active markets for identical or similar instruments, or other observable inputs that can be corroborated by observable market data.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs from nonbinding single dealer quotes not corroborated by observable market data.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize at a future date. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for certain financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

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Items measured at fair value on a recurring basis – The following fair value hierarchy table presents information about the Company's assets that are measured at fair value on a recurring basis at the dates indicated:

		Level 1	Level 2	Level 3	Total Fair Value		Level 1	Level 2	Level 3	Total Fair Value
		(dollars in thousands; unaudited)					(dollars in thousands; unaudited)			
June 30, 2023										
September 30, 2023						**September 30, 2023**				
Available-for-sale	Available-for-sale					Available-for-sale				
U.S. Treasury securities	U.S. Treasury securities	$ 97,871	$ —	$ —	$ 97,871	U.S. Treasury securities	$ 98,644	$ —	$ —	$ 98,644
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations	—	47	—	47	U.S. Agency collateralized mortgage obligations	—	45	—	45
Municipals	Municipals	—	249	—	249	Municipals	—	250	—	250
		$ 97,871	$ 296	$ —	$ 98,167		$ 98,644	$ 295	$ —	$ 98,939
December 31, 2022	**December 31, 2022**					**December 31, 2022**				
Available-for-sale	Available-for-sale					Available-for-sale				
U.S. Treasury securities	U.S. Treasury securities	$ 97,015	$ —	$ —	$ 97,015	U.S. Treasury securities	$ 97,015	$ —	$ —	$ 97,015
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations	—	51	—	51	U.S. Agency collateralized mortgage obligations	—	51	—	51
U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	—	1	—	1	U.S. Agency residential mortgage-backed securities	—	1	—	1
Municipals	Municipals	—	250	—	250	Municipals	—	250	—	250
		$ 97,015	$ 302	$ —	$ 97,317		$ 97,015	$ 302	$ —	$ 97,317

The following methods were used to estimate the fair value of the class of financial instruments above:

Investment securities **-** The fair value of securities is based on quoted market prices, pricing models, quoted prices of similar securities, independent pricing sources, and discounted cash flows.

Limitations: The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2023September 30, 2023 and December 31, 2022. The factors used in the fair values estimates are subject to change subsequent to the dates the fair value estimates are completed, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Items measured at fair value on a nonrecurring basis – The following table presents financial assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at the dates indicated:

		Level 1	Level 2	Level 3	Total Fair Value		Level 1	Level 2	Level 3	Total Fair Value
		(dollars in thousands; unaudited)					(dollars in thousands; unaudited)			
June 30, 2023										
September 30, 2023						**September 30, 2023**				
Equity securities	Equity securities	$ —	$ —	$ 2,572	$ 2,572	Equity securities	$ —	$ —	$ 2,572	$ 2,572
Total	Total	$ —	$ —	$ 2,572	$ 2,572	Total	$ —	$ —	$ 2,572	$ 2,572

December 31, 2022	December 31, 2022					December 31, 2022				
Impaired loans	Impaired loans	$ —	$ —	$ 7,080	$ 7,080	Impaired loans	$ —	$ —	$ 7,080	$ 7,080
Equity securities	Equity securities	—	—	2,572	2,572	Equity securities	—	—	2,572	2,572
Total	Total	$ —	$ —	$ 9,652	$ 9,652	Total	$ —	$ —	$ 9,652	$ 9,652

The amounts disclosed above represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported on.

Individually evaluated loans - Fair values for individually evaluated loans are estimated using the fair value of the collateral less selling costs if the loan results in a Level 3 classification. Individually evaluated loan amounts are initially valued at the lower of cost or fair value. Individually evaluated loans carried at fair value generally receive specific

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allocations of the allowance for credit losses. For collateral dependent real estate loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Individually evaluated loans are evaluated on a quarterly basis for additional credit losses and adjusted accordingly. The estimated fair values of financial instruments disclosed above follow the guidance in ASU 2016-01 which prescribes an "exit price" approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity, and marketability factors. Valuation is measured based on the fair value of the underlying collateral or the discounted cash expected future cash flows. Subsequent changes in the value of loans are included within the provision for credit losses - loans in the same manner in which it initially was recognized or as a reduction in the provision that would otherwise be reported. Loans are evaluated quarterly to determine if valuation adjustments should be recorded. The need for valuation adjustments arises when observable market prices or current appraised values of collateral indicate a shortfall in collateral value compared to current carrying values of the related loan. If the Company determines that the value of the individually evaluated loan is less than the carrying value of the loan, the Company either establishes an reserve as a specific component of the allowance for credit losses or charges off that amount. These valuation adjustments are considered nonrecurring fair value adjustments.

Equity securities – The Company measures equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer, with price changes recognized in earnings.

Assets measured at fair value using significant unobservable inputs (Level 3)

The following table presents the carrying value of equity securities without readily determinable fair values, as of June 30, 2023 September 30, 2023, with adjustments recorded during the periods presented for those securities with observable price changes, if applicable. These equity securities are included in other investments on the balance sheet.

		For the Three Months Ended June 30,		For the Six Months Ended June 30,			For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2023	2022	2023	2022	(dollars in thousands; unaudited)	2023	2022	2023	2022
Carrying value, beginning of period	Carrying value, beginning of period	$ 2,572	$ 2,672	$ 2,572	$ 2,322	Carrying value, beginning of period	$ 2,572	$ 2,672	$ 2,572	$ 2,322
Purchases	Purchases	—	—	—	350	Purchases	—	—	—	350
Observable price change	Observable price change	—	—	—	—	Observable price change	—	(100)	—	(100)
Carrying value, end of period	Carrying value, end of period	$ 2,572	$ 2,672	$ 2,572	$ 2,672	Carrying value, end of period	$ 2,572	$ 2,572	$ 2,572	$ 2,572

The following table provides a description of the valuation technique, unobservable inputs, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a nonrecurring basis at the date indicated:

(unaudited)	Valuation Technique	Unobservable Inputs	December 31, 2022 Weighted Average Rate
Impaired loans	Collateral valuations	Discount to appraised value	8.0%

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Note 9 - Earnings Per Common Share

The following is a computation of basic and diluted earnings per common share at the periods indicated:

		Three Months Ended		Six Months Ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
		(dollars in thousands, except earnings per share data; unaudited)			
Net Income	Net Income	$ 12,906	$ 10,176	$ 25,297	$ 16,406
Basic weighted average number common shares outstanding	Basic weighted average number common shares outstanding	13,275,640	12,928,061	13,236,517	12,913,485
Dilutive effect of equity-based awards	Dilutive effect of equity-based awards	322,123	513,952	367,077	545,221
Diluted weighted average number common shares outstanding	Diluted weighted average number common shares outstanding	13,597,763	13,442,013	13,603,594	13,458,706
Basic earnings per share	Basic earnings per share	$ 0.97	$ 0.79	$ 1.91	$ 1.27
Diluted earnings per share	Diluted earnings per share	$ 0.95	$ 0.76	$ 1.86	$ 1.22
Antidilutive stock options and restricted stock outstanding	Antidilutive stock options and restricted stock outstanding	229,436	299,743	177,364	234,649

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(dollars in thousands, except earnings per share data; unaudited)			
Net Income	$ 10,270	$ 11,101	$ 35,567	$ 27,507
Basic weighted average number common shares outstanding	13,285,974	12,938,200	13,253,184	12,921,814
Dilutive effect of equity-based awards	389,859	598,623	374,755	563,136
Diluted weighted average number common shares outstanding	13,675,833	13,536,823	13,627,939	13,484,950
Basic earnings per share	$ 0.77	$ 0.86	$ 2.68	$ 2.13
Diluted earnings per share	$ 0.75	$ 0.82	$ 2.61	$ 2.04
Antidilutive stock options and restricted stock outstanding	87,000	52,840	146,912	52,840

Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings, however the difference in the two-class method was not significant.

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Note 10 – Segment Reporting

As defined in ASC 280, *Segment Reporting*, an operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on an internal performance measurement accounting system, which provides line of business results. This system uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income and expense. A primary objective of this measurement system and related internal financial reporting practices are to produce consistent results that reflect the underlying financial impact of the segments on the Company and to provide a basis of support for strategic decision making. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Based on these criteria, we have identified three segments: the community bank, CCBX, and treasury & administration. The community bank segment includes all community banking activities, with a primary focus of the community bank is on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has 22 partners as of June 30, 2023 September 30, 2023. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments.

The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. The Company continues to evaluate its methodology on allocating items to the Company's various segments to support strategic business decisions by the Company's executive leadership. Income and expenses that are specific to a segment are directly posted to each segment. Additionally, certain

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indirect expenses are allocated to each segment utilizing various metrics, such as number of employees, utilization of space, and allocations based on loan and deposit balances. We have implemented a transfer pricing process that credits or charges the community bank and CCBX segments with intrabank interest income or expense for the difference in average loans and average deposits, with the treasury & administration segment as the offset for those entries.

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Summarized financial information concerning the Company's reportable segments and the reconciliation to the consolidated financial results is shown in the following tables for the periods indicated:

		June 30, 2023				December 31, 2022					September 30, 2023			
		Community Bank	CCBX	Treasury & Administration	Total	Community Bank	CCBX	Treasury & Administration	Total		Community Bank	CCBX	Treasury & Administration	Consolidated
Assets	**Assets**	**(dollars in thousands; unaudited)**								**Assets**	**(dollars in thousa**			
Cash and Due from Banks	Cash and Due from Banks	$ 4,382	$ 7,179	$ 263,499	$ 275,060	$ 4,603	$ 12,899	$ 324,637	$ 342,139	Cash and Due from Banks	$ 4,858	$ 10,485	$ 459,603	$ 474,946
Intrabank assets	Intrabank assets	—	304,408	(304,408)	—	—	254,096	(254,096)	—	Intrabank assets	—	560,463	(560,463)	—
Securities	Securities	—	—	110,730	110,730	—	—	98,353	98,353	Securities	—	—	141,489	141,489
Loans held for sale	Loans held for sale	—	35,923	—	35,923	—	—	—	—	Loans held for sale	—	—	—	—
Total loans receivable	Total loans receivable	1,713,034	1,294,519	—	3,007,553	1,614,752	1,012,504	—	2,627,256	Total loans receivable	1,784,661	1,182,374	—	2,967,035
Allowance for credit losses	Allowance for credit losses	(20,653)	(90,109)	—	(110,762)	(20,636)	(53,393)	—	(74,029)	Allowance for credit losses	(21,316)	(79,769)	—	(101,085)
All other assets	All other assets	27,164	131,260	58,355	216,779	25,508	76,111	49,129	150,748	All other assets	30,983	118,859	46,038	195,880
Total assets	Total assets	$1,723,927	$1,683,180	$ 128,176	$3,535,283	$1,624,227	$1,302,217	$ 218,023	$3,144,467	Total assets	$1,799,186	$1,792,412	$ 86,667	$ 3,678,265
Liabilities	**Liabilities**									**Liabilities**				
Total deposits	Total deposits	$1,509,458	$1,653,114	$ —	$3,162,572	$1,538,218	$1,279,303	$ —	$2,817,521	Total deposits	$1,537,468	$1,752,232	$ —	$ 3,289,700
Total borrowings	Total borrowings	—	—	47,658	47,658	—	—	47,587	47,587	Total borrowings	—	—	47,695	47,695
Intrabank liabilities	Intrabank liabilities	207,651	—	(207,651)	—	80,392	—	(80,392)	—	Intrabank liabilities	254,268	—	(254,268)	—
All other liabilities	All other liabilities	6,818	30,066	15,507	52,391	5,617	22,914	7,334	35,865	All other liabilities	7,450	40,180	8,790	56,420
Total liabilities	Total liabilities	$1,723,927	$1,683,180	$ (144,486)	$3,262,621	$1,624,227	$1,302,217	$ (25,471)	$2,900,973	Total liabilities	$1,799,186	$1,792,412	$ (197,783)	$ 3,393,815

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	Three months ended June 30, 2023				Three months ended June 30, 2022			
	Community Bank	CCBX	Treasury & Administration	Total	Community Bank	CCBX	Treasury & Administration	Total
	(dollars in thousands; unaudited)							
Net interest income, before intrabank transfer	$ 22,904	$ 36,620	$ 2,826	$ 62,350	$ 18,568	$ 19,926	$ 1,392	$ 39,886
Interest income (expense) intrabank transfer	(2,490)	3,487	(997)	—	303	532	(835)	—
(Recapture)/Provision for credit losses - loans	(47)	52,645	—	52,598	108	13,986	—	14,094
(Recapture)/Provision for unfunded commitments	(340)	(5)	—	(345)	—	—	—	—
Noninterest income (1)	1,613	56,718	264	58,595	1,355	24,048	89	25,492
Noninterest expense	9,592	35,196	7,122	51,910	7,721	24,527	5,921	38,169
Net income before income taxes	12,822	8,989	(5,029)	16,782	12,397	5,993	(5,275)	13,115
Income taxes	2,949	2,089	(1,162)	3,876	2,777	1,344	(1,182)	2,939
Net Income	$ 9,873	$ 6,900	$ (3,867)	$ 12,906	$ 9,620	$ 4,649	$ (4,093)	$ 10,176

(1) For the three months ended June 30, 2023, CCBX noninterest income includes credit enhancements of $51.0 million, fraud enhancements of $1.5 million, and BaaS program income of $3.9 million. For the three months ended June 30, 2022, CCBX noninterest income includes credit enhancements of $14.2 million, fraud enhancements of $6.5 million and BaaS program income of $3.2 million.

	Three months ended September 30, 2023			
	Community Bank	CCBX	Treasury & Administration	Consolidated
	(dollars in thous			
Net interest income, before intrabank transfer	$ 22,306	$ 35,895	$ 4,028	$ 62,229
Interest (expense) income intrabank transfer	(3,036)	5,095	(2,059)	—
Provision/(recapture) for credit losses - loans	664	26,493	—	27,157
Provision for unfunded commitments	—	96	—	96
Noninterest income (1)	1,162	33,296	121	34,579
Noninterest expense	10,065	38,555	7,881	56,501
Net income before income taxes	9,703	9,142	(5,791)	13,054
Income taxes	2,068	1,951	(1,235)	2,784
Net Income	$ 7,635	$ 7,191	$ (4,556)	$ 10,270

(1) For the three months ended September 30, 2023, CCBX noninterest income includes credit enhancements of $25.9 million, fraud enhancements of $2.9 million, and BaaS program income of $4.4 million. For the three months ended September 30, 2022, CCBX noninterest income includes credit enhancements of $17.9 million, fraud enhancements of $11.7 million and BaaS program income of $3.6 million.

(1) For the three months ended September 30, 2023, CCBX nonintere
million, fraud enhancements of $2.9 million, and BaaS program inc
September 30, 2022, CCBX noninterest income includes credit enh
$11.7 million and BaaS program income of $3.6 million.

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		Six Months Ended June 30, 2023				Six Months Ended June 30, 2022			
		Community Bank	CCBX	Treasury & Administration	Total	Community Bank	CCBX	Treasury & Administration	Total
		(dollars in thousands; unaudited)							
Net interest income, before intrabank transfer	Net interest income, before intrabank transfer	$ 44,582	$ 66,415	$ 5,844	$ 116,841	$ 35,773	$ 31,799	$ 1,582	$ 69,154
Interest income (expense) intrabank transfer	Interest income (expense) intrabank transfer	(3,569)	6,139	(2,570)	—	431	730	(1,161)	—
Provision for credit losses - loans	Provision for credit losses - loans	381	95,761	—	96,142	452	26,584	—	27,036
(Recapture)/Provision for unfunded commitments	(Recapture)/Provision for unfunded commitments	(203)	11	—	(192)	—	—	—	—
Noninterest income(1)	Noninterest income(1)	2,704	104,798	400	107,902	2,912	44,389	177	47,478
Noninterest expense	Noninterest expense	18,685	63,634	14,254	96,573	15,367	42,934	10,283	68,584
Net income before income taxes	Net income before income taxes	$ 24,854	$ 17,946	$ (10,580)	$ 32,220	$ 23,297	$ 7,400	$ (9,685)	$ 21,012
Income taxes	Income taxes	5,340	3,856	(2,273)	6,923	5,103	1,626	(2,123)	4,606
Net Income	Net Income	19,514	14,090	(8,307)	25,297	18,194	5,774	(7,562)	16,406

	Nine Months Ended September		
	Community Bank	CCBX	Treasury & Administratior
			(d
Net interest income, before intrabank transfer	$ 66,887	$ 102,311	$ 9,872
Interest income (expense) intrabank transfer	(6,605)	11,234	(4,629)
Provision for credit losses - loans	1,045	122,254	—
(Recapture)/Provision for unfunded commitments	(203)	107	—
Noninterest income(1)	3,866	138,094	521
Noninterest expense	28,748	102,192	22,134
Net income before income taxes	34,558	27,086	(16,370)
Income taxes	7,409	5,807	(3,509)
Net Income	$ 27,149	$ 21,279	$ (12,861)

(1) For the six months ended June 30, 2023, CCBX noninterest income includes credit enhancements of $93.4 million, fraud enhancements of $3.5 million and BaaS program income of $7.5 million. For the six months ended June 30, 2022, CCBX noninterest income includes credit enhancements of $27.3 million, fraud enhancements of $11.0 million and BaaS program income of $5.7 million.

(1) For the nine months ended September 30, 2023, CCBX noninterest income includes credit enhancements of $119.3 million, fraud enhancements of $6.4 million and BaaS program income of $11.9 million. For the nine months ended September 30, 2022, CCBX noninterest income includes credit enhancements of $45.2 million, fraud enhancements of $22.8 million and BaaS program income of $9.3 million.

(1) For the nine months ended September 30, 2023, CCBX
million, fraud enhancements of $6.4 million and BaaS p
September 30, 2022, CCBX noninterest income include
$22.8 million and BaaS program income of $9.3 million.

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

Overview

We are a bank holding company that operates through our wholly owned subsidiaries, Coastal Community Bank (“Bank”) and Arlington Olympic LLC . We are headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. Our business is conducted through three reportable segments: The community bank CCBX and treasury & administration. The community bank segment includes all community banking activities, with a primary focus on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service (“BaaS”) that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has 22 partners as of June 30, 2023 September 30, 2023. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments. The Bank’s deposits are insured in whole or in part by the Federal Deposit Insurance Corporation (“FDIC”). The Bank is subject to regulation by the Federal Reserve and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has supervisory authority over the Company.

As of June 30, 2023 September 30, 2023, we had total assets of $3.54 billion $3.68 billion, total loans receivable of $3.01 billion $2.97 billion, total deposits of $3.16 billion $3.29 billion and total shareholders’ equity of $272.7 million $284.5 million.

The following discussion and analysis presents our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relate to activities primarily conducted by the Bank.

We generate most of our community bank revenue from interest on loans and CCBX revenue from BaaS fee income and interest on loans. Our primary source of funding for our loans is commercial and retail deposits from our customer relationships and from our partner deposit relationships. We place secondary reliance on wholesale funding, primarily borrowings from the Federal Home Loan Bank (“FHLB”). Less commonly used sources of funding include borrowings from the Federal Reserve System (“Federal Reserve”) discount window, draws on established federal funds lines from unaffiliated commercial banks, brokered funds, which allows us to obtain deposits from sources that do not have a relationship with the Bank and can be obtained through certificate of deposit listing services, via the internet or through other advertising methods, or a one-way buy through an insured cash sweep (“ICS”) account, which allows us to obtain funds from other institutions that have deposited funds through ICS. Our largest expenses are provision for credit losses - loans, BaaS loan expense, BaaS fraud expense, salaries and employee benefits, interest on deposits and borrowings, legal and professional expenses and data processing. Our principal lending products are commercial real estate loans, consumer loans, residential real estate, commercial and industrial loans and construction, land and land development loans.

Potential Regulatory Reforms in Response to Bank Failures

The failures of Silicon Valley Bank, Santa Clara, California, Signature Bank, New York, New York, and First Republic Bank, San Francisco, California, in March and May, 2023, may lead to regulatory changes and initiatives that could impact the Company. For example, President Biden has encouraged the federal banking agencies to adopt various reforms, including the completion of an incentive compensation rule for bank executives pursuant to Section 956 of the Dodd-Frank Act, in response to these bank failures. On April 28, 2023, the Federal Reserve and the FDIC issued reports on the failures of Silicon Valley Bank and Signature Bank, respectively, identifying the potential causes that the federal banking agencies may seek to address through changes to their supervisory and regulatory policies. Additionally, agency officials, including the Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, have called for changes to the manner in which banks' capital, interest rate and liquidity risks are supervised and regulated. The extent of final actions to be taken by the regulatory agencies in responses to these bank failures, including the potential changes discussed by the Vice Chair or highlighted in the Federal Reserve and FDIC reports, remain unclear.

Small Business Lending Data Collection Rule

On March 30, 2023, the CFPB finalized a rule under section 1071 of the Dodd-Frank Act requiring lenders to collect and report data regarding small business lending activity. The Company is evaluating the impact of the new rule. The rule is

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scheduled to take effect on August 29, 2023, and requires compliance by October 1, 2024, April 1, 2025, or January 1, 2026, depending on the number of covered small business loans that a covered lender originates.

On July 31, 2023, the U.S. District Court for the Southern District of Texas enjoined the CFPB from implementing and enforcing the rule with respect to American Bankers Association members, which include the Company, pending the U.S. Supreme Court's consideration of the constitutionality of the CFPB's funding structure in a separate case. The court expanded its stay to cover all covered financial institutions in October 2023.

London Interbank Offered Rate ("LIBOR") Transition

LIBOR, a benchmark interest rate that was widely referenced in the past, is no longer published ceased publication after June 30, 2023. On December 16, 2022, the Federal Reserve Board adopted a final rule that implements implemented the Adjustable Interest Rate ("LIBOR") Act (the "LIBOR Act") by identifying designating benchmark rates based on SOFR (Secured Overnight Financing Rate) that will to replace LIBOR formerly known as the London Interbank Offered Rate, in certain financial contracts after June 30, 2023. Congress enacted the LIBOR Act, which was signed into law in March 2022, to provide a uniform, nationwide solution for so-called tough legacy contracts that do not have clear and practicable provisions for replacing LIBOR after June 30, 2023. The LIBOR Act also establishes a litigation safe harbor for lenders that select a LIBOR replacement under certain situations, including the use of a replacement rate selected by the Federal Reserve. As required by the law, the final rule identifies replacement benchmark rates based on SOFR to replace overnight, one-month, three-month, six-month, and 12-month LIBOR in contracts subject to the Act. These contracts include U.S. contracts that do not mature before LIBOR ends and that lack adequate "fallback" provisions that would replace LIBOR with a practicable replacement benchmark rate. For more information on the Company's approach to LIBOR transition planning, please see the risk factors discussed in the Company's annual report on Form 10-K for the year ended December 31, 2022.

As of June 30, 2023 September 30, 2023, we had 44 loans totaling $196.6 million that are tied to LIBOR. We have $3.6 million in floating rate junior subordinated debentures to Coastal (WA) Statutory Trust I, which was formed for the issuance of trust preferred securities. These debentures have been tied to LIBOR, but beginning with the first rate adjustments that occur adjustment after June 30, 2023, the rate will be is based off three-month CME Term SOFR plus 0.26%. The move to an this alternate index may impact the rates we receive on loans and rates we pay on our junior subordinated debentures. We have identified the loans and debt instruments impacted, and we believe we will be able to use other benchmark replacements and transition protections provided by the LIBOR Act, Federal Reserve rule and relevant accounting guidance to manage through the transition away from LIBOR. We no longer issue any loans or debt tied to LIBOR LIBOR..

Third Party Risk Management Guidance

On June 6, 2023, the FDIC, the Federal Reserve and the OCC Office of the Comptroller of the Currency (the"OCC") issued final guidance providing sound principles that support a risk-based approach to third-party risk management. The Company is evaluating the impact of this guidance on its practices.

Community Reinvestment Act Reform

On October 24, 2023, the FDIC, the Federal Reserve and the OCC released a final rule revising the framework that they use to evaluate banks' records of community reinvestment under the Community Reinvestment Act ("CRA"). Under the revised framework, banks with assets of at least $2 billion, such as the Bank, are considered large banks and will have their retail lending, retail services and products, community development financing, and community development services subject to periodic evaluation. Depending on a large bank's geographic concentrations of lending, the evaluation of retail lending may include assessment areas in which the bank extends loans but does not operate any deposit-taking facilities, in addition to assessment areas in which the bank has deposit-taking facilities. The rule becomes effective April 1, 2024. Most provisions of the final rule will apply beginning January 1, 2026, and the remaining provisions will apply beginning January 1, 2027. The Company is evaluating the impact of the final rule.

Financial Indicators

Below are a select number of financial highlights from our second third quarter.

- Total loans, net of deferred fees decreased $40.5 million, or 1.3%, to $2.97 billion for the quarter ended September 30, 2023 as management sold loans as part of our strategy to reduce risk, optimize the CCBX loan portfolio and strengthen the balance sheet through enhanced credit standards.
  - Community bank loans increased $71.6 million, or 4.2%, to $1.78 billion.
  - CCBX loans decreased $112.1 million, or 8.7%, to $1.18 billion.
    - $320.9 million in CCBX loans were sold.

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- Deposits increased $67.3 million $127.1 million, or 2.2% 4.0%, to $3.16 billion $3.29 billion as of June 30, 2023 September 30, 2023 compared to March 31, 2023 June 30, 2023.
  - CCBX deposit growth of $89.3 million $99.1 million, or 5.7% 6.0%, to $1.65 billion $1.75 billion.
    - Additional $9.9 million CCBX deposit growth is net of an additional $51.9 million in CCBX deposits that were transferred off balance sheet. sheet to provide increased FDIC insurance coverage for those customers.
  - Community bank deposits decreased $21.9 million increased $28.0 million, or 1.4% 1.9%, to $1.51 billion $1.54 billion.
    - Includes noninterest bearing deposits of $621.0 million $584.0 million or 41.1% 38.0% of total community bank deposits.
    - Community bank cost of deposits was 0.98% 1.31%.
  - Uninsured deposits of $599.0 million, or 18.2% of total deposits as of September 30, 2023, compared to $632.1 million, or 20.0% of total deposits as of June 30, 2023, compared to $768.3 million, or 24.8% of total deposits as of March 31, 2023.
- Total revenue increased $17.1 million, or 16.5%, for the three months ended June 30, 2023, compared to the three months ended March 31, 2023
- Total revenue excluding Banking as a Service ("BaaS") credit enhancements and BaaS fraud enhancements increased $8.9 million, or 15.0%, to $68.4 million for the three months ended June 30, 2023, compared to the three months ended March 31, 2023. (A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*")
- Liquidity/Borrowings as of June 30, 2023 September 30, 2023:
  - Capacity to borrow up to $559.8 million $577.9 million from Federal Home Loan Bank and the Federal Reserve Bank discount window with no borrowings taken under these facilities during the quarter or nine months ended June 30, 2023 September 30, 2023.
- Investment Portfolio as of June 30, 2023 September 30, 2023:
  - Available for sale ("AFS") investments of $98.2 million $98.9 million, compared to $98.0 million $98.2 million as of March 31, 2023 June 30, 2023, of which 99.7% are U.S. Treasuries, with a weighted average remaining duration life of 8 5 months as of June 30, 2023 September 30, 2023.

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  - Held to maturity ("HTM") investments of $12.6 million $42.6 million, of which 100% are U.S. Agency mortgage backed securities held for Community Reinvestment Act ("CRA") purposes, with a CRA purposes. The carrying value of the HTM investments is $1.7 million more than the fair value, of $404,000 less than the carrying value as of June 30, 2023 and a weighted average remaining duration of 6.7 life is 18.6 years as of June 30, 2023 September 30, 2023 and the weighted average yield is 5.00% for the quarter ended September 30, 2023.
- Net interest margin of 7.58% 7.10% for the quarter ended June 30, 2023 September 30, 2023.
- Cost of deposits of 2.72% 3.14% for the quarter ended June 30, 2023 September 30, 2023.

Deposits increased $67.3 million $127.1 million, or 2.2% 4.0%**,** during the three months ended June 30, 2023 September 30, 2023. Fully insured IntraFi network sweep reciprocal deposits increased $146.0 million $56.1 million to $296.4 million as of September 30, 2023, compared to $240.3 million as of June 30, 2023, compared to $94.3 million as of March 31, 2023**.** These fully insured sweep deposits allow our larger deposit customers the Bank to fully insure their larger customer deposits through a sweep and exchange of deposits with other financial institutions. As part of our plan to optimize and strengthen our balance sheet, we decreased loans receivable by $40.5 million, or 1.3%, during the three months ended September 30, 2023. We anticipate that additional loans will be sold in the coming months as we continue working to optimize our CCBX portfolio through new partners, products and building on our existing relationships. We expect this process to take two to three quarters. At the same time we will be focused on increasing our efficiency and using technology to reduce future expense growth. Our liquidity position is supported by diligent management of our liquid assets and liabilities as well as maintaining access to alternative sources of funds. As of June 30, 2023 September 30, 2023 we had $275.1 million $474.9 million in cash on the balance sheet and the capacity to borrow up to $559.8 million $577.9 million from Federal Home Loan Bank and the Federal Reserve Bank discount window. We did not draw down on either facility at any point in the six nine months ending June 30, 2023 September 30, 2023. Cash on the balance sheet and borrowing capacity total $834.8 million $1.05 billion and represented 26.4% 32.0% of total deposits and exceeded our $632.1 million $599.0 million in uninsured deposits as of June 30, 2023 September 30, 2023. Our AFS securities portfolio has a weighted average remaining duration maturity of just 8 5 months and U.S. Treasury securities represent 99.7% of that portfolio as of June 30, 2023 September 30, 2023. Unrealized losses on the AFS securities portfolio were just $2.1 million $1.3 million, or 0.78% 0.47%, of shareholders' equity as of June 30, 2023 September 30, 2023.

As we continue to focus on our BaaS business, we intend to concentrate on working with larger partners and optimizing our CCBX loan portfolio so we can grow and advance our presence in the BaaS space. Our strategy for new CCBX partnerships is to focus on larger, more established partners, including national and publicly-traded companies with experienced management teams, existing customer bases and strong financial positions. This strategy will likely yield fewer, but larger, CCBX partnerships moving forward. We are being more intentional in our selection of products and partnerships that best serve our customers and shareholders in order to achieve our long term profitability objective. During the quarter ended September 30, 2023 we sold $320.9 million in higher yielding CCBX loans that have a greater potential for credit deterioration in an effort to optimize our CCBX loan portfolio. As we work to optimize our CCBX loan portfolio through enhanced credit standards, we expect lower earnings in the short term with lower loan yields and compressed margins but we continue to focus on strengthening the portfolio with new loans that we believe will provide for long term stability and profitability. We anticipate continuing to look for opportunities to grow our Company and will focus on the long term, holding down deposits costs when possible and managing expense through efficient use of technology.

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Results of Operations

Net Income

Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

Net income for the three months ended June 30, 2023 September 30, 2023 was $12.9 million $10.3 million, or $0.95 $0.75 per diluted share, compared to $10.2 million $11.1 million, or $0.76 $0.82 per diluted share, for the three months ended June 30, 2022 September 30, 2022. The increase decrease in net income over the comparable period in the prior year was primarily attributable to a $41.9 million $20.1 million increase in interest income and $33.1 million expense due to an increase in noninterest income. These were partially offset by average interest bearing deposits and an increase of in cost of deposits as a result of higher interest rates, an increase in the provision for credit losses - loans of $38.5 million $8.7 million, related to CCBX loan growth, and $13.7 million $5.4 million more in noninterest expense, also largely related to CCBX loan growth, and increases in salary expense and professional fees. These increases in expense were partially offset by a $33.2 million increase in interest income and $188,000 increase in noninterest income. The increase in noninterest income, provision expense and noninterest expense are all largely related to increased CCBX loan and deposit activity. In accordance with GAAP, we recognize as revenue (1) the right to be indemnified or reimbursed for fraud losses on CCBX customer loans and deposits and (2) the right to be indemnified for credit losses by our partners for expected credit losses related to loans they originate and unfunded commitments from such loans. CCBX customer credit losses are recognized in the allowance for loan loss and fraud loss is recognized in BaaS noninterest expense. For more information on the accounting for BaaS allowance for credit losses, reserve for unfunded commitments, credit enhancements and fraud enhancements see the section titled *"CCBX – BaaS Reporting Information."*

Comparison of the six nine months ended June 30, 2023 September 30, 2023 to the comparable period in the prior year

Net income for the six nine months ended June 30, 2023 September 30, 2023 was $25.3 million $35.6 million, or $1.86 $2.61 per diluted share, compared to $16.4 million $27.5 million, or $1.22 $2.04 per diluted share, for the six nine months ended June 30, 2022 September 30, 2022. The increase in net income over the comparable period in the prior year was primarily attributable to a $81.8 million $115.0 million increase in interest income and $60.4 million $60.6 million increase in noninterest income. These were partially offset by an increase in the provision for credit losses - loans of $69.1 million $77.8 million, related primarily to CCBX loan growth, $54.3 million increase in interest expense and $28.0 million $33.4 million more in noninterest expense. The increase in noninterest income, provision expense and noninterest expense are largely related to CCBX loan and deposit growth. The increase in interest expense is related to higher average interest bearing deposits and an increase in cost of deposits as a result of higher interest rates.

Net Interest Income

Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

Net interest income for the three months ended June 30, 2023 September 30, 2023 was $62.4 million $62.2 million, compared to $39.9 million $49.2 million for the three months ended June 30, 2022 September 30, 2022, an increase of $22.5 million $13.0 million, or 56.3% 26.5%. Yield on loans receivable was 10.85% 10.84% for the three months ended June 30, 2023 September 30, 2023, compared to 7.34% 8.46% for the three months ended June 30, 2022 September 30, 2022. The increase in net interest income compared to the quarter ended June 30, 2022 September 30, 2022 was largely related to increased yield on loans from growth in higher yielding loans, primarily from CCBX, and the overall increase in interest rates resulting from the Federal Open Market Committee ("FOMC") raising rates 3.50% 2.25% since June 30, 2022 September 30, 2022 to 5.25% 5.50%, with the last increase during such period on

May 3, 2023. July 26, 2023. As of June 30, 2022 September 30, 2022, the FOMC had set the interest rates at 1.75% 3.25%. This increase in interest rates since then impacts our existing variable rate loans as well as rates on new loans. We continue to monitor the impact of these increases in interest rates. Total average loans receivable for the three months ended June 30, 2023 September 30, 2023 was $2.97 billion $3.06 billion, compared to $2.19 billion $2.45 billion for the three months ended June 30, 2022 September 30, 2022.

Total interest and fees on loans totaled $80.2 million $83.7 million for the three months ended June 30, 2023 September 30, 2023 compared to $40.2 million $52.3 million for the three months ended June 30, 2022 September 30, 2022. The $40.0 million $31.3 million increase in interest and fees on loans for the quarter ended June 30, 2023 September 30, 2023, compared to the quarter ended June 30, 2022 September 30, 2022, was largely due to increased yield on loans from growth in higher yielding loans, primarily from CCBX, combined with the overall increase in interest rates. Total loans receivable was $3.01 billion $2.97 billion at June 30, 2023 September 30, 2023, compared to $2.33 billion $2.51 billion at June 30, 2022 September 30, 2022. CCBX loan growth was strong during the quarter with average loans receivable of $1.27 billion was $1.31 billion for the quarter ended June 30, 2023 September 30, 2023, compared to $691.3 million $893.7 million for the quarter ended June 30, 2022 September 30, 2022, an increase of $578.1 million $415.7 million, or 83.6% 46.5%. Average CCBX yield of 16.95% 17.05% was earned on CCBX loans for the quarter ended June 30, 2023 September 30, 2023, compared to 12.35% 13.96% for the quarter ended June 30, 2022 September 30, 2022. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Also impacting the increase in loan interest is the increase

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in interest rates on variable rate loans resulting from the FOMC raising rates. The FOMC has increased interest rates from 1.75% 3.25% as of June 30, 2022 September 30, 2022 to 5.25% 5.50% as of June 30, 2023 September 30, 2023. We continue to monitor the impact of these increases in interest rates. During the quarter ended September 30, 2023 we sold $320.9 million in higher yielding CCBX loans that have a greater potential for credit deterioration. As a result, we expect to see lower net income in the short term with lower loan yields and compressed margins but we will work to continue growing our CCBX portfolio with loans that we believe will strengthen the balance sheet and provide for long term stability and profitability.

Interest income from interest earning deposits with other banks was $2.7 million $3.9 million for the quarter ended June 30, 2023 September 30, 2023, an increase of $1.7 million $1.6 million, or 180.1% 70.9%, due to higher interest rates, compared to the quarter ended June 30, 2022 September 30, 2022. The average balance of interest earning deposits invested with other banks for the three months ended June 30, 2023 September 30, 2023 was $211.4 million $285.6 million, compared to $499.9 million $397.6 million for the three months ended June 30, 2022 September 30, 2022. This decrease was a result of increased loan demand. The yield on these interest earning deposits with other banks increased 4.31% 3.13%, to 5.08% 5.40% compared to 0.77% 2.27% at June 30, 2022 September 30, 2022. Interest income on investment securities increased $90,000 $212,000 to $653,000 $766,000 at June 30, 2023 September 30, 2023, compared to $563,000 $554,000 at June 30, 2022 September 30, 2022. Average investment securities decreased $10.9 million increased $14.3 million from $121.3 million $103.7 million for the three months ended June 30, 2022 September 30, 2022, to $110.3 million $118.0 million for the three months ended June 30, 2023 September 30, 2023, and, as a result of higher interest rates, average yield increased to 2.37% 2.58% for the three months ended June 30, 2023 September 30, 2023, compared to 1.86% 2.12% for the three months ended June 30, 2022 September 30, 2022. The increase in average investment securities is a result of purchasing additional U.S. Agency mortgage backed securities for CRA purposes. CRA securities are designated held-to-maturity ("HTM") and the weighted average yield of those securities was 5.00% for the quarter ended September 30, 2023.

Interest expense was $21.3 million $26.1 million for the quarter ended June 30, 2023 September 30, 2023, a $19.4 million $20.1 million increase from the quarter ended June 30, 2022 September 30, 2022. Interest expense on deposits was $20.7 million $25.5 million for the quarter ended June 30, 2023 September 30, 2023, compared to $1.7 million $5.7 million for the quarter ended June 30, 2022 September 30, 2022. The $19.0 million $19.7 million increase in interest expense on deposits was due to an increase of $534.6 million $561.9 million in interest bearing deposits as well as a 3.19% 2.85% increase in interest rates on deposit accounts. While we continue working to hold down deposit costs, any additional FOMC interest rate increases will increase our cost of deposits and result in higher interest expense on interest bearing deposits. Interest on borrowed funds was $661,000 $651,000 for the quarter ended June 30, 2023 September 30, 2023, compared to $260,000 $273,000 for the quarter ended June 30, 2022 September 30, 2022. The $401,000 $378,000 increase in interest expense on borrowed funds from the quarter ended June 30, 2022 September 30, 2022 is the result of an average balance increase of $19.7 million in subordinated debt, which increased during the quarter ended December 31, 2022, and an increase in interest rates. Interest expense on interest bearing deposits increased compared to the quarter ended June 30, 2022 September 30, 2022 as a result of an increase in CCBX deposits that are tied to, and reprice when, the FOMC raises rates, just like rates. Similarly, most of our CCBX loans which also reprice when the FOMC raises interest rates. Interest expense is expected to increase as a result of the FOMC increasing rates. Any additional FOMC interest rate increases will result in higher interest expense on interest bearing deposits which we expect will be primarily offset by higher interest rates on CCBX loans and excess cash invested in the Federal Reserve Bank or other banks.

Net interest margin was 7.58% 7.10% for the three months ended June 30, 2023 September 30, 2023, compared to 5.66% 6.58% for the three months ended June 30, 2022 September 30, 2022. The increase in net interest margin compared to the three months ended June 30, 2022 September 30, 2022 was largely due to an increase in total loans combined with higher interest rates on new and existing variable rate loans as they reprice. Average loans increased $770.5 million $609.4 million compared to the three months ended June 30, 2022 September 30, 2022. Also contributing to the increase in net interest margin compared to the three months ended June 30, 2022 September 30, 2022 was interest earning deposits invested in other banks, which earned an average rate of 5.08% 5.40% for the quarter ended June 30, 2023 September 30, 2023, compared to an average rate of 0.77% 2.27% for the quarter ended June 30, 2022 September 30, 2022. We expect that higher interest rates on interest bearing deposits will continue to compress net interest margin as a result of our decision to increase rates on our interest bearing deposits in light of rate increases from our competitors and CCBX deposit pricing being tied to the Fed Funds rate.

Cost of funds was 2.77% 3.18% for the quarter ended June 30, 2023 September 30, 2023, which is an increase of 2.48% 2.33% from the quarter ended June 30, 2022 September 30, 2022. Cost of deposits for the quarter ended June 30, 2023 September 30, 2023 was 2.72% 3.14%, which was an 2.47% a 2.32% increase, from 0.25% 0.82% for the quarter ended June 30, 2022 September 30, 2022. These increases were largely due to an increase in higher cost CCBX deposits and a higher interest rate environment compared to June 30, 2022 September 30, 2022 as the FOMC raised the Fed funds rate 2.25% from September 30, 2022 to September 30, 2023. CCBX deposit growth also contributed to the increase in interest expense.

Total yield on loans receivable for the quarter ended June 30, 2023 September 30, 2023 was 10.85% 10.84%, compared to 7.34% 8.46% for the quarter ended June 30, 2022 September 30, 2022. This increase in yield on loans receivable is primarily attributed to an increase in higher rate CCBX loans. For the quarter ended June 30, 2023 September 30, 2023, average CCBX loans increased $578.1 million $415.7 million, or 83.6% 46.5%, with an average CCBX yield of 16.95% 17.05%, compared to 12.35% 13.96% at the quarter ended June 30, 2022 September 30, 2022. CCBX yield does not

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include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating &servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Average community bank loans increased $192.4 million $193.7 million, or 12.8%. This increase includes a decrease in average PPP loans of $29.9 million, compared to the quarter ended June 30, 2022 12.4%. Average yield on community bank loans for the three months ended June 30, 2023 September 30, 2023 was 6.28% 6.20% compared to 5.04% 5.31% for the three months ended June 30, 2022 September 30, 2022.

The following tables show the average yield on loans and cost of deposits by segment and also illustrates the impact of BaaS loan expense on CCBX yield on loans:

		For the Three Months Ended					For the Three Months Ended			
		June 30, 2023		June 30, 2022			September 30, 2023		September 30, 2022	
(unaudited)	(unaudited)	Yield on Loans (2)	Cost of Deposits (2)	Yield on Loans (2)	Cost of Deposits (2)	(unaudited)	Yield on Loans (2)	Cost of Deposits (2)	Yield on Loans (2)	Cost of Deposits (2)
Community Bank	Community Bank	6.28%	0.98%	5.04%	0.08%	Community Bank	6.20%	1.31%	5.31%	0.16%
CCBX(1)	CCBX(1)	16.95%	4.42%	12.35%	0.56%	CCBX(1)	17.05%	4.80%	13.96%	1.79%
Consolidated	Consolidated	10.85%	2.72%	7.34%	0.25%	Consolidated	10.84%	3.14%	8.46%	0.82%

(1) CCBX yield on loans does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. See the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*" for a reconciliation of the impact of BaaS loan expense on CCBX yield on loans.

(2) Annualized calculations shown for periods presented.

		For the Three Months Ended					For the Three Months Ended			
		June 30, 2023		June 30, 2022			September 30, 2023		September 30, 2022	
(dollars in thousands, unaudited)	(dollars in thousands, unaudited)	Income / Expense	Income / expense divided by average CCBX loans (2)	Income / Expense	Income / expense divided by average CCBX loans (2)	(dollars in thousands, unaudited)	Income / Expense	Income / expense divided by average CCBX loans (2)	Income / Expense	Income / expense divided by average CCBX loans (2)
BaaS loan interest income	BaaS loan interest income	$ 53,632	16.95 %	$ 21,281	12.35 %	BaaS loan interest income	$ 56,279	17.05 %	$ 31,449	13.96 %
Less: BaaS loan expense	Less: BaaS loan expense	22,033	6.96 %	12,229	7.10 %	Less: BaaS loan expense	23,003	6.97 %	15,560	6.91 %
Net BaaS loan income (1)	Net BaaS loan income (1)	$ 31,599	9.98 %	$ 9,052	5.25 %	Net BaaS loan income (1)	$ 33,276	10.08 %	$ 15,889	7.05 %
Average BaaS Loans(3)	Average BaaS Loans(3)	$ 1,269,406		$ 691,294		Average BaaS Loans(3)	$ 1,309,380		$ 893,655	

(1) A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"

(2) Annualized calculations shown for periods presented.

(3) Includes loans held for sale.

For the three months ended June 30, 2023 September 30, 2023, net interest margin (net interest income divided by the average total interest earning assets) and net interest spread (average yield on total interest earning assets minus average cost of total interest bearing liabilities) were 7.58% 7.10% and 6.57% 6.04%, respectively, compared to 5.66% 6.58% and 5.51% 6.18%, respectively, for the three months ended June 30, 2022 September 30, 2022.

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The following table presents an analysis of the average balances of net interest income, net interest spread and net interest margin for the periods indicated. Loan costs included in interest income totaled $1.2 million $2.0 million and loan fees costs included in interest income totaled $1.2 million $100,000 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. For the three months ended June 30, 2023 September 30, 2023 and 2022, the amount of interest income not recognized on nonaccrual loans was not material.

		Average Balance Sheets For the Three Months Ended June 30,							Average Balance Sheets For the Three Months Ended September 30,					
		2023			2022				2023			2022		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)	(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Assets	**Assets**							**Assets**						
Interest earning assets:	Interest earning assets:							Interest earning assets:						
Interest earning deposits with other banks	Interest earning deposits with other banks	$ 211,369	$ 2,678	5.08 %	$ 499,918	$ 956	0.77 %	Interest earning deposits with other banks	$ 285,596	$ 3,884	5.40 %	$ 397,621	$ 2,273	2.27 %
Investment securities, available for sale (2)	Investment securities, available for sale (2)	100,278	534	2.14	119,975	554	1.85	Investment securities, available for sale (2)	100,283	543	2.15	102,438	545	2.11
Investment securities, held to maturity (2)	Investment securities, held to maturity (2)	10,047	119	4.75	1,280	9	2.82	Investment securities, held to maturity (2)	17,703	223	5.00	1,257	9	2.84

Other investments	Other investments	11,773	156	5.31	10,225	134	5.26	Other investments	11,943	29	0.96	10,520	24	0.91
Loans receivable (3)	Loans receivable (3)	2,965,287	80,199	10.85	2,194,761	40,166	7.34	Loans receivable (3)	3,062,214	83,652	10.84	2,452,815	52,328	8.46
Total interest earning assets	Total interest earning assets	3,298,754	83,686	10.18	2,826,159	41,819	5.94	Total interest earning assets	3,477,739	88,331	10.08	2,964,651	55,179	7.38
Noninterest earning assets:	Noninterest earning assets:							Noninterest earning assets:						
Allowance for credit losses	Allowance for credit losses	(87,713)			(46,354)			Allowance for credit losses	(100,329)			(51,259)		
Other noninterest earning assets	Other noninterest earning assets	194,747			115,788			Other noninterest earning assets	220,750			128,816		
Total assets	Total assets	$ 3,405,788			$ 2,895,593			Total assets	$ 3,598,160			$ 3,042,208		
Liabilities and Shareholders' Equity	**Liabilities and Shareholders' Equity**							**Liabilities and Shareholders' Equity**						
Interest bearing liabilities:	Interest bearing liabilities:							Interest bearing liabilities:						
Interest bearing deposits	Interest bearing deposits	$ 2,326,702	$ 20,675	3.56 %	$ 1,792,119	$ 1,673	0.37 %	Interest bearing deposits	$ 2,515,093	$ 25,451	4.01 %	$ 1,953,170	$ 5,717	1.16 %
Subordinated debt	Subordinated debt	44,047	596	5.43	24,313	231	3.81	Subordinated debt	44,084	580	5.22	24,331	234	3.82
Junior subordinated debentures	Junior subordinated debentures	3,589	65	7.26	3,587	29	3.24	Junior subordinated debentures	3,589	71	7.85	3,587	39	4.31
Total interest bearing liabilities	Total interest bearing liabilities	2,374,338	21,336	3.60	1,820,019	1,933	0.43	Total interest bearing liabilities	2,562,766	26,102	4.04	1,981,088	5,990	1.20
Noninterest bearing deposits	Noninterest bearing deposits	717,256			839,562			Noninterest bearing deposits	698,532			807,952		
Other liabilities	Other liabilities	49,085			19,550			Other liabilities	57,865			25,662		
Total shareholders' equity	Total shareholders' equity	265,109			216,462			Total shareholders' equity	278,997			227,506		
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	$ 3,405,788			$ 2,895,593			Total liabilities and shareholders' equity	$ 3,598,160			$ 3,042,208		
Net interest income	Net interest income		$ 62,350			$ 39,886		Net interest income		$ 62,229			$ 49,189	
Interest rate spread	Interest rate spread			6.57 %			5.51 %	Interest rate spread			6.04 %			6.18 %
Net interest margin (4)	Net interest margin (4)			7.58 %			5.66 %	Net interest margin (4)			7.10 %			6.58 %

(1) Yields and costs are annualized.

(2) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(3) Includes loans held for sale and nonaccrual loans.

(4) Net interest margin represents net interest income divided by the average total interest earning assets.

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The following table presents an analysis of certain average balances, interest income and interest expense by segment:

	For the Three Months Ended

(dollars in thousands, unaudited)	September 30, 2023 Average Balance	Interest & Dividends	Yield / Cost (1)	September 30, 2022 Average Balance	Interest & Dividends	Yield / Cost (1)
Community Bank						
Assets						
Interest earning assets:						
Loans receivable (2)	$ 1,752,834	$ 27,373	6.20 %	$ 1,559,160	$ 20,879	5.31 %
Intrabank asset	—	—	—	77,217	441	2.27
Total interest earning assets	1,752,834	27,373	6.20	1,636,377	21,320	5.17
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 920,707	$ 5,067	2.18 %	$ 901,339	$ 642	0.28 %
Intrabank liability	223,221	3,036	5.40	—	—	—
Total interest bearing liabilities	1,143,928	8,103	2.81	901,339	642	0.28
Noninterest bearing deposits	608,906			735,038		
Net interest income		$ 19,270			$ 20,678	
Net interest margin (3)			4.36 %			5.01 %
CCBX						
Assets						
Interest earning assets:						
Loans receivable (2)(4)	$ 1,309,380	$ 56,279	17.05 %	$ 893,655	$ 31,449	13.96 %
Intrabank asset	374,632	5,095	5.40	231,090	1,321	2.27
Total interest earning assets	1,684,012	61,374	14.46	1,124,745	32,770	11.56
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 1,594,386	$ 20,384	5.07 %	$ 1,051,831	$ 5,075	1.91 %
Total interest bearing liabilities	1,594,386	20,384	5.07	1,051,831	5,075	1.91
Noninterest bearing deposits	89,626			72,914		
Net interest income		$ 40,990			$ 27,695	
Net interest margin (3)			9.66 %			9.77 %
Net interest margin, net of Baas loan expense (5)			4.24 %			4.28 %

(dollars in thousands, unaudited)	For the Three Months Ended June 30, 2023 Average Balance	Interest & Dividends	Yield / Cost (1)	June 30, 2022 Average Balance	Interest & Dividends	Yield / Cost (1)
Community Bank						
Assets						
Interest earning assets:						
Loans receivable (2)	$ 1,695,881	$ 26,567	6.28 %	$ 1,503,467	$ 18,885	5.04 %
Intrabank asset	—	—	—	158,607	303	0.77
Total interest earning assets	1,695,881	26,567	6.28	1,662,074	19,188	4.63
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 875,760	$ 3,663	1.68 %	$ 921,499	$ 317	0.14 %
Intrabank liability	196,552	2,490	5.08	—	—	—
Total interest bearing liabilities	1,072,312	6,153	2.30	921,499	317	0.14
Noninterest bearing deposits	623,570			740,575		
Net interest income		$ 20,414			$ 18,871	
Net interest margin (3)			4.83 %			4.55 %

CCBX						
Assets						
Interest earning assets:						
Loans receivable (2)(4)	$ 1,269,406	$ 53,632	16.95 %	$ 691,294	$ 21,281	12.35 %
Intrabank asset	275,222	3,487	5.08	278,312	532	0.77
Total interest earning assets	1,544,628	57,119	14.83	969,606	21,813	9.02
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 1,450,942	$ 17,012	4.70 %	$ 870,620	$ 1,356	0.62 %
Total interest bearing liabilities	1,450,942	17,012	4.70	870,620	1,356	0.62
Noninterest bearing deposits	93,686			98,987		
Net interest income		$ 40,107			$ 20,457	
Net interest margin (3)			10.41 %			8.46 %
Net interest margin, net of Baas loan expense (5)			4.69 %			3.40 %

	For the Three Months Ended					
	June 30, 2023			June 30, 2022		
(dollars in thousands, unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Treasury & Administration						
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 211,369	$ 2,678	5.08 %	$ 499,918	$ 956	0.77 %
Investment securities, available for sale (6)	100,278	534	2.14	119,975	554	1.85
Investment securities, held to maturity (6)	10,047	119	4.75	1,280	9	2.82
Other investments	11,773	156	5.31	10,225	134	5.26
Total interest earning assets	333,467	3,487	4.19	631,398	1,653	1.05 %
Liabilities						
Interest bearing liabilities:						
Subordinated debt	44,047	596	5.43	24,313	231	3.81
Junior subordinated debentures	3,589	65	7.26	3,587	29	3.24
Intrabank liability, net (7)	78,670	997	5.08	436,919	835	0.77
Total interest bearing liabilities	126,306	1,658	5.27	464,819	1,095	0.94
Net interest income		$ 1,829			$ 558	
Net interest margin (3)			2.20 %			0.35 %

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	For the Three Months Ended					
	September 30, 2023			September 30, 2022		
(dollars in thousands, unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Treasury & Administration						
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 285,596	$ 3,884	5.40 %	$ 397,621	$ 2,273	2.27 %
Investment securities, available for sale (6)	100,283	543	2.15	102,438	545	2.11

Investment securities, held to maturity (6)	17,703	223	5.00	1,257	9	2.84
Other investments	11,943	29	0.96	10,520	24	0.91
Total interest earning assets	415,525	4,679	4.47	511,836	2,851	2.21 %
Liabilities						
Interest bearing liabilities:						
Subordinated debt	44,084	580	5.22	24,331	234	3.82
Junior subordinated debentures	3,589	71	7.85	3,587	39	4.31
Intrabank liability, net (7)	151,411	2,059	5.40	308,307	1,762	2.27
Total interest bearing liabilities	199,084	2,710	5.40	336,225	2,035	2.40
Net interest income		$ 1,969			$ 816	
Net interest margin(3)			1.88 %			0.63 %

(1) Yields and costs are annualized.

(2) Includes loans held for sale and nonaccrual loans.

(3) Net interest margin represents net interest income divided by the average total interest earning assets.

(4) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. See the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*" for a reconciliation of the impact of BaaS loan expense on CCBX loan yield.

(5) Net interest margin, net of BaaS loan expense includes the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements, originating & servicing CCBX loans. A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"

(6) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(7) Intrabank assets and liabilities are consolidated for period calculations and presented as intrabank asset, net or intrabank liability, net in the table above.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. The table illustrates the $19.2 million increase in loan interest income that is attributed to an increase in loan rates and $20.8 million increase in loan interest income that is attributed to an increase in loan volume. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to volume.

	Three months ended June 30, 2023 Compared to Three months ended June 30, 2022		
	Increase (Decrease) Due to		
(dollars in thousands; unaudited)	Volume	Rate	Total Increase (Decrease)
Interest income:			
Interest earning deposits	$ (3,656)	$ 5,378	$ 1,722
Investment securities, available for sale	(105)	85	(20)
Investment securities, held to maturity	104	6	110
Other Investments	21	1	22
Loans receivable	20,840	19,193	40,033
Total increase in interest income	17,204	24,663	41,867
Interest expense:			
Interest bearing deposits	4,750	14,252	19,002
Subordinated debt	267	98	365
Junior subordinated debentures	—	36	36
Total increase in interest expense	5,017	14,386	19,403
Increase in net interest income	$ 12,187	$ 10,277	$ 22,464

Comparison of the six months ended June 30, 2023 to the comparable period in the prior year

Net interest income for the six months ended June 30, 2023, was $116.8 million, compared to $69.2 million for the six months ended June 30, 2022, an increase of $47.7 million, or 69.0%. Yield on loans receivable was 10.42% for the six months ended June 30, 2023, compared 7.10% for the six months ended June 30, 2022. The increase in net interest income compared to the six months ended June 30, 2022 was largely related to increased yield on loans from growth in higher yielding loans primarily from CCBX and higher interest rates. Total average loans receivable for the six months ended June 30, 2023 was $2.84 billion, compared to $1.98 billion for the six months ended June 30, 2022.

Interest and fees on loans totaled $146.6 million for the six months ended June 30, 2023 compared to $69.8 million for the six months ended June 30, 2022. The $76.8 million increase in interest and fees on loans for the six months ended June 30, 2023, compared to the six months ended June 30, 2022, was largely due to increased yield on loans from growth in higher yielding CCBX loans and an overall increase in interest rates. Loan growth of $673.2 million, or 28.8%, for the six months ended June 30, 2023, compared to June 30, 2022, includes a decrease of $12.8 million in PPP loans that were forgiven or repaid. CCBX average loans receivable grew to $1.17 billion for the six months ended June 30, 2023, compared to $537.6 million for the six months ended June 30, 2022, an increase of $629.8 million, or 117.2%. Average CCBX yield of 16.56% was earned on CCBX loans for the six months ended June 30, 2023, compared to 12.48% for the six months ended June 30, 2022. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating &servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Also impacting the increase in loan interest is the increase in interest rates on variable rate loans resulting from the FOMC raising rates from 1.75% as of June 30, 2022 to 5.25% as of June 30, 2023, with the most recent increase during such period on May 3, 2023. We continue to monitor the impact of these increases in interest rates.

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Interest income from interest earning deposits with other banks was $5.8 million for the six months ended June 30, 2023, an increase of $4.4 million due to higher interest rates, despite a decrease in balances, compared to the six months ended June 30, 2022. The average balance of interest earning deposits invested with other banks for the six months ended June 30, 2023 was $241.4 million, compared to $671.0 million for the six months ended June 30, 2022. This decrease was a result of increased loan demand. Additionally, the yield on these interest earning deposits with other banks increased 4.41%, compared to the six months ended June 30, 2022. Interest income on investment securities increased $572,000 to $1.2 million, and a yield 2.29% at June 30, 2023, compared to $634,000, and a yield of 1.53%, at June 30, 2022. Average investment securities increased $22.6 million from $83.7 million for the six months ended June 30, 2022 to $106.3 million for the six months ended June 30, 2023 as a result of purchasing additional securities to hold for CRA purposes, and average yield increased to 2.29% for the six months ended June 30, 2023, compared to 1.53% for the six months ended June 30, 2022.

Interest expense was $37.0 million for the six months ended June 30, 2023, a $34.1 million increase from the six months ended June 30, 2022. Interest expense on deposits was $35.6 million for the six months ended June 30, 2023, compared to $2.2 million for the six months ended June 30, 2022. The $33.4 million increase in interest expense on deposits was primarily due to an increase in average interest bearing deposits of $735.3 million. Interest on borrowed funds was $1.3 million for the six months ended June 30, 2023, compared to $581,000 for the six months ended June 30, 2022. The $742,000 increase in interest expense on borrowed funds from the six months ended June 30, 2022 is the result of a decrease in average FHLB borrowings, which were paid off in full during the quarter ended March 31, 2022, partially offset by a $19.7 million average balance increase in subordinated debt, which increased during the quarter ended December 31, 2022. Interest expense is expected to increase as a result of the FOMC increasing the Fed Funds rate 0.75% during the six months ended June 30, 2023, with the most recent increase during such period on May 3, 2023. Interest expense is expected to increase as a result of the FOMC increasing rates. Any additional FOMC interest rate increases will result in higher interest expense on interest bearing deposits which we expect will be primarily offset by higher interest rates on CCBX loans and excess cash invested in the Federal Reserve Bank or other banks.

Net interest margin was 7.37% for the six months ended June 30, 2023, compared to 5.08% for the six months ended June 30, 2022. The increase in net interest margin compared to the six months ended June 30, 2022 was largely a result of an increase in higher rate loans. Average loans increased $854.7 million, compared to the six months ended June 30, 2022; the increase includes an average decrease in PPP loans of $52.6 million. Also contributing to the increase in net interest margin compared to the six months ended June 30, 2022 was a $4.4 million increase in interest earned on interest earning deposits invested in other banks. These interest earning deposits earned an average rate of 4.82% for the six months ended June 30, 2023, compared to an average rate of 0.41% for the six months ended June 30, 2022.

Cost of funds was 2.49% for the six months ended June 30, 2023, compared to 0.22% for the six months ended June 30, 2022. Cost of deposits for the six months ended June 30, 2023 was 2.44%, which was a 2.26% increase, from 0.18% for the six months ended June 30, 2022. These increases were largely due to an increase in interest rates and an increase in interest bearing deposits. CCBX deposit growth also contributed to the increase in interest expense.

Total yield on loans receivable for the six months ended June 30, 2023 was 10.42%, compared to 7.10% for the six months ended June 30, 2022. This increase in yield on loans receivable is primarily attributed to an increase in higher rate CCBX loans. For the six months ended June 30, 2023, average CCBX loans increased $629.8 million, or 117.2%, with an average CCBX yield of 16.56%, compared to 12.48% for the six months ended June 30, 2022. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements andoriginating & servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. There was an increase in average community bank loans of $225.0 million, or 15.6%, which includes an average $52.6 million decrease in PPP loans as a result of loan forgiveness/ repayments, compared to the six months ended June 30, 2022. Average yield on community bank loans for the six months ended June 30, 2023 was 6.13%. compared to 5.10% for the six months ended June 30, 2022.

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The following tables show the average yield on loans and cost of deposits by segment and also illustrates the impact of BaaS loan expense on CCBX yield on loans:

	For the Six Months Ended			
	June 30, 2023		June 30, 2022	
(unaudited)	Yield on Loans (2)	Cost of Deposits (2)	Yield on Loans (2)	Cost of Deposits (2)
Community Bank	6.13%	0.82%	5.10%	0.09%
CCBX (1)	16.56%	4.18%	12.48%	0.34%
Consolidated	10.42%	2.44%	7.10%	0.18%

(1) CCBX yield on loans does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. A reconciliation of this non-GAAP measure is set forth in the section titled *"GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."*

(2) Annualized calculations shown for periods presented.

(dollars in thousands; unaudited)	For the Six Months Ended June 30, 2023 Income / Expense	June 30, 2023 Income / expense divided by average CCBX loans (2)	June 30, 2022 Income / Expense	June 30, 2022 Income / expense divided by average CCBX loans (2)
BaaS loan interest income	$ 95,851	16.56 %	$ 33,273	12.48 %
Less: BaaS loan expense	39,587	6.84 %	20,519	7.70 %
Net BaaS loan income (1)	$ 56,264	9.72 %	$ 12,754	4.78 %
Average BaaS Loans(3)	$ 1,167,366		$ 537,577	

(1) A reconciliation of this non-GAAP measure is set forth in the section titled *"GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."*

(2) Annualized calculations shown for periods presented.

(3) Includes loans held for sale.

For the six months ended June 30, 2023, net interest margin (net interest income divided by the average total interest earning assets) and net interest spread (average yield on total interest earning assets minus average cost of total interest bearing liabilities) were 7.37% and 6.39%, respectively, compared to 5.08% and 4.90%, respectively, for the six months ended June 30, 2022.

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The following table presents an analysis of the average balances of net interest income, net interest spread and net interest margin for the periods indicated. Loan fees included in interest income totaled $2.3 million and $4.0 million for the six months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, the amount of interest income not recognized on nonaccrual loans was not material.

(dollars in thousands; unaudited)	Average Balance Sheets For the Six Months Ended June 30, 2023 Average Balance	2023 Interest & Dividends	2023 Yield / Cost (1)	2022 Average Balance	2022 Interest & Dividends	2022 Yield / Cost (1)
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 241,368	$ 5,775	4.82 %	$ 670,974	$ 1,358	0.41 %
Investment securities, available for sale (2)	100,276	1,069	2.15	82,431	615	1.50
Investment securities, held to maturity (2)	6,023	137	4.59	1,286	19	2.98
Other investments	11,206	186	3.35	9,729	171	3.54
Loans receivable (3)	2,837,442	146,630	10.42	1,982,700	69,798	7.10
Total interest earning assets	3,196,315	153,797	9.70	2,747,120	71,961	5.28
Noninterest earning assets:						
Allowance for credit losses	(84,417)			(38,554)		
Other noninterest earning assets	183,516			104,159		
Total assets	$ 3,295,414			$ 2,812,725		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	$ 2,199,168	$ 35,633	3.27 %	$ 1,463,875	$ 2,226	0.31 %
FHLB advances and borrowings	—	—	0.00	12,154	69	1.14
Subordinated debt	44,028	1,195	5.47	24,304	461	3.83
Junior subordinated debentures	3,588	128	7.19	3,587	51	2.87
Total interest bearing liabilities	2,246,784	36,956	3.32	1,503,920	2,807	0.38

Noninterest bearing deposits	746,436				1,078,525			
Other liabilities	43,299				17,790			
Total shareholders' equity	258,895				212,490			
Total liabilities and shareholders' equity	$	3,295,414			$	2,812,725		
Net interest income			$ 116,841				$ 69,154	
Interest rate spread				6.39 %				4.90 %
Net interest margin (4)				7.37 %				5.08 %

(1) Yields and costs are annualized.

(2) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(3) Includes loans held for sale and nonaccrual loans.

(4) Net interest margin represents net interest income divided by the average total interest earning assets.

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The following table presents an analysis of certain average balances, interest income and interest expense by segment:

	For the Six Months Ended					
	June 30, 2023			June 30, 2022		
(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Community Bank						
Assets						
Interest earning assets:						
Loans receivable (2)	$ 1,670,076	$ 50,779	6.13 %	$ 1,445,123	$ 36,525	5.10 %
Intrabank asset	—	—	0.00	213,207	431	0.41
Total interest earning assets	1,670,076	50,779	6.13	1,658,330	36,956	4.49
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 864,518	$ 6,197	1.45 %	$ 928,602	$ 752	0.16 %
Intrabank liability	145,890	3,569	4.93	—	—	—
Total interest bearing liabilities	1,010,408	9,766	1.95	928,602	752	0.16
Noninterest bearing deposits	659,668			729,728		
Net interest income		$ 41,013			$ 36,204	
Net interest margin(3)			4.95 %			4.40 %
CCBX						
Assets						
Interest earning assets:						
Loans receivable (2)(4)	$ 1,167,366	$ 95,851	16.56 %	$ 537,577	$ 33,273	12.48 %
Intrabank asset	254,052	6,139	4.87	346,493	730	0.42
Total interest earning assets	1,421,418	101,990	14.47	884,070	34,003	7.76
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 1,334,650	$ 29,436	4.45 %	$ 535,273	$ 1,474	0.56 %
Total interest bearing liabilities	1,334,650	29,436	4.45	535,273	1,474	0.56
Noninterest bearing deposits	86,768			348,797		
Net interest income		$ 72,554			$ 32,529	
Net interest margin(3)			10.29 %			7.42 %
Net interest margin, net of Baas loan expense (5)			4.68 %			2.74 %

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	For the Six Months Ended					
	June 30, 2023			June 30, 2022		
Treasury & Administration	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 241,368	$ 5,775	4.82 %	$ 670,974	$ 1,358	0.41 %
Investment securities, available for sale (6)	100,276	1,069	2.15	82,431	615	1.50
Investment securities, held to maturity (6)	6,023	137	4.59	1,286	19	2.98
Other investments	11,206	186	3.35	9,729	171	3.54
Total interest earning assets	358,873	7,167	4.03 %	764,420	2,163	0.57 %
Liabilities						
Interest bearing liabilities:						
FHLB advances and borrowings	$ —	$ —	0.00 %	$ 12,154	$ 69	1.14 %
Subordinated debt	44,028	1,195	5.47	24,304	461	3.83
Junior subordinated debentures	3,588	128	7.19	3,587	51	2.87
Intrabank liability, net (7)	108,162	2,570	4.79	559,700	1,161	0.42
Total interest bearing liabilities	155,778	3,893	5.04	599,745	1,742	0.59
Net interest income		$ 3,274			$ 421	
Net interest margin(3)			1.84 %			0.11 %

(1) Yields and costs are annualized.

(2) Includes loans held for sale and nonaccrual loans.

(3) Net interest margin represents net interest income divided by the average total interest earning assets.

(4) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. See the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*" for a reconciliation of the impact of BaaS loan expense on CCBX loan yield.

(5) Net interest margin, net of BaaS loan expense includes the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements, originating & servicing CCBX loans. A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"

(6) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(7) Intrabank assets and liabilities are consolidated for period calculations and presented as intrabank asset, net or intrabank liability, net in the table above.

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The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. The table illustrates the $32.7 million $14.7 million increase in loan interest income that is attributed to an increase in loan rates and $44.2 million $16.6 million increase in loan interest income that is attributed to an increase in loan volume. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to volume.

		Six Months Ended June 30, 2023 compared to Six Months Ended June 30, 2022				Three months ended September 30, 2023 Compared to Three months ended September 30, 2022		
		Increase (Decrease) Due to				Increase (Decrease) Due to		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Volume	Rate	Total Increase (Decrease)	(dollars in thousands; unaudited)	Volume	Rate	Total Increase (Decrease)

Interest income:	Interest income:				Interest income:			
Interest earning deposits	Interest earning deposits	$ (10,279)	$ 14,696	$ 4,417	Interest earning deposits	$ (1,523)	$ 3,134	$ 1,611
Investment securities, available for sale	Investment securities, available for sale	190	264	454	Investment securities, available for sale	(12)	10	(2)
Investment securities, held to maturity	Investment securities, held to maturity	108	10	118	Investment securities, held to maturity	207	7	214
Other Investments	Other Investments	25	(10)	15	Other Investments	3	2	5
Loans receivable	Loans receivable	44,170	32,662	76,832	Loans receivable	16,647	14,677	31,324
Total increase in interest income	Total increase in interest income	34,214	47,622	81,836	Total increase in interest income	15,322	17,830	33,152
Interest expense:	Interest expense:				Interest expense:			
Interest bearing deposits	Interest bearing deposits	11,914	21,493	33,407	Interest bearing deposits	5,686	14,048	19,734
FHLB advances		—	(69)	(69)				
Subordinated debt	Subordinated debt	535	199	734	Subordinated debt	260	86	346
Junior subordinated debentures	Junior subordinated debentures	—	77	77	Junior subordinated debentures	—	32	32
Total increase in interest expense	Total increase in interest expense	12,449	21,700	34,149	Total increase in interest expense	5,946	14,166	20,112
Increase in net interest income	Increase in net interest income	$ 21,765	$ 25,922	$ 47,687	Increase in net interest income	$ 9,376	$ 3,664	$ 13,040

Comparison of the nine months ended September 30, 2023 to the comparable period in the prior year

Net interest income for the nine months ended September 30, 2023, was $179.1 million, compared to $118.3 million for the nine months ended September 30, 2022, an increase of $60.7 million, or 51.3%. Yield on loans receivable was 10.57% for the nine months ended September 30, 2023, compared 7.63% for the nine months ended September 30, 2022. The increase in net interest income compared to the nine months ended September 30, 2022 was largely related to increased yield on loans from growth in higher yielding loans primarily from CCBX and higher interest rates. Total average loans receivable for the nine months ended September 30, 2023 was $2.91 billion, compared to $2.14 billion for the nine months ended September 30, 2022.

Interest and fees on loans totaled $230.3 million for the nine months ended September 30, 2023 compared to $122.1 million for the nine months ended September 30, 2022. The $108.2 million increase in interest and fees on loans for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, was largely due to increased yield on loans from growth in higher yielding CCBX loans and an overall increase in interest rates. CCBX average loans receivable grew to $1.22 billion for the nine months ended September 30, 2023, compared to $657.6 million for the nine months ended September 30, 2022, an increase of $557.7 million, or 84.8%. Average CCBX yield of 16.74% was earned on CCBX loans for the nine months ended September 30, 2023, compared to 13.16% for the nine months ended September 30, 2022. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Also impacting the increase in loan interest is the increase in interest rates on variable rate loans resulting from the FOMC raising rates from 3.25% as of September 30, 2022 to 5.50% as of September 30, 2023, with the most recent increase during such period on July 26, 2023. We continue to monitor the impact of these increases in interest rates.

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Interest income from interest earning deposits with other banks was $9.7 million for the nine months ended September 30, 2023, an increase of $6.0 million due to higher interest rates, despite a decrease in balances, compared to the nine months ended September 30, 2022. The average balance of interest earning deposits invested with other banks for the nine months ended September 30, 2023 was $256.3 million, compared to $578.9 million for the nine months ended September 30, 2022. This decrease was a result of increased loan demand. Additionally, the yield on these interest earning deposits with other banks increased 4.20%, compared to the nine months ended September 30, 2022. Interest income on investment securities increased $784,000 to $2.0 million, with a yield of 2.39% at September 30, 2023, compared to $1.2 million, and a yield of 1.76%, at September 30, 2022. Average investment securities increased $19.8 million from $90.4 million for the nine months ended September 30, 2022 to $110.2 million for the nine months ended September 30, 2023 as a result of purchasing additional securities to hold for CRA purposes, and average yield increased to 2.39% for the nine months ended September 30, 2023, compared to 1.76% for the nine months ended September 30, 2022.

Interest expense was $63.1 million for the nine months ended September 30, 2023, a $54.3 million increase from the nine months ended September 30, 2022. Interest expense on deposits was $61.1 million for the nine months ended September 30, 2023, compared to $7.9 million for the nine months ended September 30, 2022. The $53.2 million increase in interest expense on deposits was due to an increase in average interest bearing deposits of $676.9 million and an increase in interest rates. Interest on borrowed funds was $2.0 million for the nine months ended September 30, 2023, compared to $854,000 for the nine months ended September 30, 2022. The $1.1 million increase in interest expense on borrowed funds from the nine months ended September 30, 2022 is the result of a $19.7 million average balance increase in subordinated debt, which increased during the quarter ended December 31, 2022 partially offset by a decrease in average FHLB borrowings, which were paid off in full during the quarter ended March 31, 2022. The FOMC increased the Fed Funds rate 1.00% during the nine months ended September 30, 2023, with the most recent increase during such period on July 26, 2023. Interest expense is expected to increase as a result of the FOMC increasing rates and any additional FOMC interest rate increases will result in higher interest expense on interest bearing deposits which will compress net interest margin in future periods.

Net interest margin was 7.27% for the nine months ended September 30, 2023, compared to 5.61% for the nine months ended September 30, 2022. The increase in net interest margin compared to the nine months ended September 30, 2022 was largely a result of an increase in higher rate loans. Average loans increased $772.1 million, compared to the nine months ended September 30, 2022. Also contributing to the increase in net interest margin compared to the nine months ended September 30, 2022 was a $6.0 million increase in interest earned on interest earning deposits invested in other banks. These interest earning deposits earned an average rate of 5.04% for the nine months ended September 30, 2023, compared to an average rate of 0.84% for the nine months ended September 30, 2022. We expect that interest expense will increase and net interest margin will compress as we increase the interest rates on interest bearing deposits to compete with rates offered by our competitors and CCBX deposit pricing increases as a result of being tied to the Fed Funds rate.Additionally, the sale of higher risk and higher yielding loans during the quarter ended September 30, 2023 in an effort to optimize and strengthen the balance sheet is expected to further impact net interest margin in future quarters.

Cost of funds was 2.73% for the nine months ended September 30, 2023, compared to 0.44% for the nine months ended September 30, 2022. Cost of deposits for the nine months ended September 30, 2023 was 2.69%, which was a 2.28% increase, from 0.41% for the nine months ended September 30, 2022. These increases were largely due to an increase in interest rates and an increase in interest bearing deposits. CCBX deposit growth also contributed to the increase in interest expense.

Total yield on loans receivable for the nine months ended September 30, 2023 was 10.57%, compared to 7.63% for the nine months ended September 30, 2022. This increase in yield on loans receivable is primarily attributed to an increase in higher rate CCBX loans. For the nine months ended September 30, 2023, average CCBX loans increased $557.7 million, or 84.8%, with an average CCBX yield of 16.74%, compared to 13.16% for the nine months ended September 30, 2022. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. In light of our efforts to optimize and strengthen the balance sheet by selling higher yield CCBX loans, total yield on loans may not continue increasing and average CCBX loans may decrease in the short term as a we work to grow the CCBX portfolio with enhanced credit standards and lower potential for future credit deterioration. There was an increase in average community bank loans of $214.4 million, or 14.5%, compared to the nine months ended September 30, 2022. Average yield on community bank loans for the nine months ended September 30, 2023 was 6.15%. compared to 5.17% for the nine months ended September 30, 2022.

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The following tables show the average yield on loans and cost of deposits by segment and also illustrates the impact of BaaS loan expense on CCBX yield on loans:

	For the Nine Months Ended			
	September 30, 2023		September 30, 2022	
(unaudited)	Yield on Loans (2)	Cost of Deposits (2)	Yield on Loans (2)	Cost of Deposits (2)
Community Bank	6.15%	0.99%	5.17%	0.11%
CCBX (1)	16.74%	4.41%	13.16%	0.91%
Consolidated	10.57%	2.69%	7.63%	0.41%

(1) CCBX yield on loans does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. A reconciliation of this non-GAAP measure is set forth in the section titled *"GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."*

(2) Annualized calculations shown for periods presented.

	For the Nine Months Ended			
	September 30, 2023		September 30, 2022	
(dollars in thousands; unaudited)	Income / Expense	Income / expense divided by average CCBX loans (2)	Income / Expense	Income / expense divided by average CCBX loans (2)
BaaS loan interest income	$ 152,131	16.74 %	$ 64,721	13.16 %
Less: BaaS loan expense	62,590	6.89 %	36,079	7.34 %
Net BaaS loan income (1)	$ 89,541	9.85 %	$ 28,642	5.82 %
Average BaaS Loans(3)	$ 1,215,224		$ 657,574	

(1) A reconciliation of this non-GAAP measure is set forth in the section titled *"GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."*

(2) Annualized calculations shown for periods presented.

(3) Includes loans held for sale.

For the nine months ended September 30, 2023, net interest margin (net interest income divided by the average total interest earning assets) and net interest spread (average yield on total interest earning assets minus average cost of total interest bearing liabilities) were 7.27% and 6.26%, respectively, compared to 5.61% and 5.32%, respectively, for the nine months ended September 30, 2022.

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The following table presents an analysis of the average balances of net interest income, net interest spread and net interest margin for the periods indicated. Loan fees included in interest income totaled $4.4 million and $3.9 million for the nine months ended September 30, 2023 and 2022, respectively. For the nine months ended September 30, 2023 and 2022, the amount of interest income not recognized on nonaccrual loans was not material.

	Average Balance Sheets For the Nine Months Ended September 30,					
	2023			2022		
(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 256,272	$ 9,659	5.04 %	$ 578,855	$ 3,631	0.84 %
Investment securities, available for sale (2)	100,278	1,612	2.15	89,173	1,160	1.74
Investment securities, held to maturity (2)	9,959	360	4.83	1,276	28	2.93
Other investments	11,455	215	2.51	9,996	195	2.61
Loans receivable (3)	2,913,189	230,282	10.57	2,141,127	122,126	7.63
Total interest earning assets	3,291,153	242,128	9.84	2,820,427	127,140	6.03
Noninterest earning assets:						
Allowance for credit losses	(89,780)			(42,836)		
Other noninterest earning assets	196,065			112,468		
Total assets	$ 3,397,438			$ 2,890,059		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	$ 2,305,634	$ 61,084	3.54 %	$ 1,628,765	$ 7,943	0.65 %
FHLB advances and borrowings	—	—	—	8,058	69	1.14
Subordinated debt	44,047	1,775	5.39	24,313	695	3.82
Junior subordinated debentures	3,589	199	7.41	3,587	90	3.35
Total interest bearing liabilities	2,353,270	63,058	3.58	1,664,723	8,797	0.71
Noninterest bearing deposits	730,292			987,343		
Other liabilities	48,206			20,442		
Total shareholders' equity	265,670			217,551		
Total liabilities and shareholders' equity	$ 3,397,438			$ 2,890,059		
Net interest income		$ 179,070			$ 118,343	
Interest rate spread			6.26 %			5.32 %
Net interest margin (4)			7.27 %			5.61 %

(1) Yields and costs are annualized.

(2) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(3) Includes loans held for sale and nonaccrual loans.

(4) Net interest margin represents net interest income divided by the average total interest earning assets.

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The following table presents an analysis of certain average balances, interest income and interest expense by segment:

	For the Nine Months Ended					
	September 30, 2023			September 30, 2022		
(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Community Bank						
Assets						
Interest earning assets:						
Loans receivable (2)	$ 1,697,965	$ 78,151	6.15 %	$ 1,483,553	$ 57,405	5.17 %
Intrabank asset	—	—	—	167,379	872	0.70
Total interest earning assets	1,697,965	78,151	6.15	1,650,932	58,277	4.72
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 883,454	$ 11,264	1.70 %	$ 919,415	$ 1,394	0.20 %
Intrabank liability	171,950	6,605	5.14	—	—	—
Total interest bearing liabilities	1,055,404	17,869	2.26	919,415	1,394	0.20
Noninterest bearing deposits	642,561			731,517		
Net interest income		$ 60,282			$ 56,883	
Net interest margin (3)			4.75 %			4.61 %
CCBX						
Assets						
Interest earning assets:						
Loans receivable (2)(4)	$ 1,215,224	$ 152,131	16.74 %	$ 657,574	$ 64,721	13.16 %
Intrabank asset	294,687	11,234	5.10	307,602	2,051	0.89
Total interest earning assets	1,509,911	163,365	14.47	965,176	66,772	9.25
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 1,422,180	$ 49,820	4.68 %	$ 709,350	$ 6,549	1.23 %
Total interest bearing liabilities	1,422,180	49,820	4.68	709,350	6,549	1.23
Noninterest bearing deposits	87,731			255,826		
Net interest income		$ 113,545			$ 60,223	
Net interest margin (3)			10.05 %			8.34 %
Net interest margin, net of Baas loan expense (5)			4.51 %			3.34 %

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	For the Nine Months Ended					
	September 30, 2023			September 30, 2022		
	Average Balance	Interest & Dividends	Yield / Cost (1)	Average Balance	Interest & Dividends	Yield / Cost (1)
Treasury & Administration						
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 256,272	$ 9,659	5.04 %	$ 578,855	$ 3,631	0.84 %
Investment securities, available for sale (6)	100,278	1,612	2.15	89,173	1,160	1.74

Investment securities, held to maturity (6)	9,959	360	4.83	1,276	28	2.93
Other investments	11,455	215	2.51	9,996	195	2.61
Total interest earning assets	377,964	11,846	4.19 %	679,300	5,014	0.99 %
Liabilities						
Interest bearing liabilities:						
FHLB advances and borrowings	$ —	$ —	— %	$ 8,058	$ 69	1.14 %
Subordinated debt	44,047	1,775	5.39	24,313	695	3.82
Junior subordinated debentures	3,589	199	7.41	3,587	90	3.35
Intrabank liability, net (7)	122,737	4,629	5.04	474,981	2,923	0.82
Total interest bearing liabilities	170,373	6,603	5.18	510,939	3,777	0.99
Net interest income		$ 5,243			$ 1,237	
Net interest margin(3)			1.85 %			0.24 %

(1) Yields and costs are annualized.

(2) Includes loans held for sale and nonaccrual loans.

(3) Net interest margin represents net interest income divided by the average total interest earning assets.

(4) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. See the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*" for a reconciliation of the impact of BaaS loan expense on CCBX loan yield.

(5) Net interest margin, net of BaaS loan expense includes the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"

(6) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(7) Intrabank assets and liabilities are consolidated for period calculations and presented as intrabank asset, net or intrabank liability, net in the table above.

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The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. The table illustrates the $47.1 million increase in loan interest income that is attributed to an increase in loan rates and $61.0 million increase in loan interest income that is attributed to an increase in loan volume. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to volume.

	Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022		
	Increase (Decrease) Due to		Total Increase
(dollars in thousands; unaudited)	Volume	Rate	(Decrease)
Interest income:			
Interest earning deposits	$ (12,158)	$ 18,186	$ 6,028
Investment securities, available for sale	179	273	452
Investment securities, held to maturity	314	18	332
Other Investments	27	(7)	20
Loans receivable	61,030	47,126	108,156
Total increase in interest income	49,392	65,596	114,988
Interest expense:			
Interest bearing deposits	17,933	35,208	53,141
FHLB advances	(69)	—	(69)
Subordinated debt	795	285	1,080
Junior subordinated debentures	—	109	109
Total increase in interest expense	18,659	35,602	54,261
Increase in net interest income	$ 30,733	$ 29,994	$ 60,727

Provision for Credit Losses

The provision for credit losses - loans is an expense we incur to maintain an allowance for credit losses at a level that management deems appropriate to absorb inherent losses on existing loans. For a description of the factors taken into account by our management in determining the allowance for credit losses see "—Financial Condition—Allowance for Credit Losses."

The economic environment is continuously changing with the bank failures earlier this year, inflation, higher interest rates, global unrest, the war in Ukraine and Middle East, political uncertainty including a potential shutdown of the U.S. government, and trade issues that may impact the provision and therefore the allowance. Effective January 1, 2023 the Company implemented the CECL allowance model which calculates reserves over the life of the loan and is largely driven by portfolio characteristics, economic outlook, and other key methodology assumptions versus the incurred loss model, which is what we were previously using. Gross loans, excluding loans held for sale, totaled $3.01 billion $2.97 billion at June 30, 2023 September 30, 2023 and included $3.6 million $3.3 million in PPP loans, which are 100% guaranteed, and are excluded from the provision for credit losses - loans calculation. The allowance for credit losses as a percentage of loans was 3.68% 3.41% at June 30, 2023 September 30, 2023, compared to 2.11% 2.36% at June 30, 2022 September 30, 2022.

Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by indemnifying or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's legal commitment to indemnify or reimburse losses. The credit enhancement asset is relieved as credit enhancement payments are received from the CCBX partner or taken from the partner's cash reserve account.

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Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

The provision for credit losses - loans for the three months ended June 30, 2023 September 30, 2023 was $52.6 million $27.2 million, compared to $14.1 million $18.4 million for the three months ended June 30, 2022 September 30, 2022. The increase in the Company's provision for credit losses - loans during the quarter ended June 30, 2023 September 30, 2023, is largely related to the provision for CCBX partner loans. During the quarter ended June 30, 2023 September 30, 2023, a $52.6 million $26.5 million provision for credit losses - loans was recorded for CCBX partner loans based on management's analysis. The factors used in management's analysis for community bank credit losses indicated that a small adjustment (recapture) provision for loan loss credit losses - loans of $47,000 $664,000 was needed for the quarter ended June 30, 2023 September 30, 2023.

The following table shows the provision expense by segment for the periods indicated:

		Three Months Ended			Three Months Ended	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	June 30, 2023	June 30, 2022	(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022
Community bank	Community bank	$ (47)	$ 109	Community bank	$ 664	$ (238)
CCBX	CCBX	52,645	13,985	CCBX	26,493	18,666
Total provision expense	Total provision expense	$ 52,598	$ 14,094	Total provision expense	$ 27,157	$ 18,428

Net charge-offs for the quarter ended June 30, 2023 September 30, 2023 totaled $31.0 million $36.8 million, or 4.19% 4.77% of total average loans, compared to $3.5 million $8.5 million, or 0.64% 1.38% of total average loans, for the quarter ended June 30, 2022 September 30, 2022. Net charge-offs were up in 2023 compared to 2022 due to loans originated through CCBX partners. In accordance with GAAP, CCBX losses are recorded as charge-offs, but CCBX partner agreements provide for a credit enhancement that indemnifies or reimburses the Bank for net-charge-offs on CCBX loans and negative deposit accounts, except in accordance with the program agreement for one partner where the Company is responsible for credit losses on approximately 10% of a $180.5 million $231.9 million loan portfolio. At June 30, 2023 September 30, 2023, our portion of this portfolio represented $18.0 million $23.2 million in loans. For the three months ended June 30, 2023 September 30, 2023, $31.0 million $36.8 million of net charge-offs were recognized for CCBX loans and $9,000 of no net charge-offs were recognized on community bank loans. For the three months ended June 30, 2022 September 30, 2022, $3.5 million $8.1 million of net charge-offs were recognized on CCBX loans and $33,000 $408,000 of net recoveries charge-offs were recognized for community bank loans.

The following table shows the total charge-off activity by segment for the periods indicated:

		Three Months Ended							Three Months Ended					
		June 30, 2023			June 30, 2022				September 30, 2023			September 30, 2022		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	Gross charge-offs	$ 9	$ 32,290	$ 32,299	$ 3	$ 3,539	$ 3,542	Gross charge-offs	$ 3	$ 37,876	$ 37,879	$ 411	$ 8,102	$ 8,513
Gross recoveries	Gross recoveries	—	(1,340)	(1,340)	(36)	—	(36)	Gross recoveries	(3)	(1,042)	(1,045)	(3)	(6)	(9)

Net charge-offs	Net charge-offs	$ 9	$ 30,950	$ 30,959	$ (33)	$ 3,539	$ 3,506	Net charge-offs	$ —	$ 36,834	$ 36,834	$ 408	$ 8,096	$ 8,504
Net charge-offs to average loans (1)	Net charge-offs to average loans (1)	— %	9.78 %	4.19 %	(0.01) %	2.05 %	0.64 %	Net charge-offs to average loans (1)	— %	11.16 %	4.77 %	0.10 %	3.59 %	1.38 %

(1) Annualized calculations shown for periods presented.

Comparison of the six nine months ended June 30, 2023 September 30, 2023 to the comparable period in the prior year

The provision for credit losses - loans for the six nine months ended June 30, 2023 September 30, 2023 was $96.1 million $123.3 million, compared to $27.0 million $45.5 million for the six nine months ended June 30, 2022 September 30, 2022. The increase in the Company's provision for credit losses - loans during the quarter ended June 30, 2023 September 30, 2023, is largely related to the provision for CCBX partner loans. loans due to significant loan growth and increased loss rates. During the six nine months ended June 30, 2023 September 30, 2023, a $95.8 million $122.3 million provision for credit losses - loans was recorded for loans originated through CCBX partners based on management's analysis. The factors used in management's analysis for community bank credit losses indicated that a provision for loan loss of $381,000 $1.0 million was needed for the six nine months ended June 30, 2023 September 30, 2023.

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The following table shows the provision expense by segment for the periods indicated:

		Six Months Ended			Nine Months Ended	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	June 30, 2023	June 30, 2022	(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022
Community bank	Community bank	$ 381	$ 452	Community bank	$ 1,045	$ 214
CCBX	CCBX	95,761	26,584	CCBX	122,254	45,250
Total provision expense	Total provision expense	$ 96,142	$ 27,036	Total provision expense	$ 123,299	$ 45,464

Net charge-offs for the six nine months ended June 30, 2023 September 30, 2023 totaled $63.3 million $100.1 million, or 4.50% 4.59% of total average loans, as compared to net charge-offs of $6.3 million $14.8 million, or 0.64% 0.93% of total average loans, for the six nine months ended June 30, 2022 September 30, 2022. Net charge-offs increased in the first six nine months of 2023 compared to the same period of 2022 as a result of the growth in loans originated through CCBX partners. In accordance with GAAP, CCBX losses are recorded as charge-offs, but CCBX partner agreements provide for a credit enhancement that indemnifies or reimburses and CCBX partners reimburse the Bank for net-charge-offs on CCBX loans and negative deposit accounts, except in accordance with the program agreement for one partner where the Company is responsible for credit losses on approximately 10% of a $180.5 million $231.9 million loan portfolio. At June 30, 2023 September 30, 2023, our portion of this portfolio represented $18.0 million $23.2 million in loans. For the six nine months ended June 30, 2023 September 30, 2023, $63.2 million $100.0 million of net charge-offs were recognized for CCBX loans and $54,000 of net charge-offs recognized for community bank loans. For the six nine months ended June 30, 2022 September 30, 2022, $6.3 million $14.4 million of net charge-offs were recognized for CCBX and $33,000 $375,000 of net recoveries charge-offs were recognized for community bank loans.

		Six Months Ended							Nine Months Ended					
		June 30, 2023			June 30, 2022				September 30, 2023			September 30, 2022		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	Gross charge-offs	$ 59	$ 66,407	$ 66,466	$ 7	$ 6,343	$ 6,350	Gross charge-offs	$ 62	$ 104,283	$ 104,345	$ 418	$ 14,445	$ 14,863
Gross recoveries	Gross recoveries	(5)	(3,200)	(3,205)	(40)	—	(40)	Gross recoveries	(8)	(4,242)	(4,250)	(43)	(6)	(49)
Net charge-offs	Net charge-offs	$ 54	$ 63,207	$ 63,261	$ (33)	$ 6,343	$ 6,310	Net charge-offs	$ 54	$ 100,041	$ 100,095	$ 375	$ 14,439	$ 14,814
Net charge-offs to average loans(1)	Net charge-offs to average loans(1)	0.01 %	10.92 %	4.50 %	0.00 %	2.38 %	0.64 %	Net charge-offs to average loans(1)	0.00 %	11.01 %	4.59 %	0.03 %	2.94 %	0.93 %

(1) Annualized calculations shown for periods presented.

Noninterest Income

Our primary sources of recurring noninterest income are BaaS indemnification income, Baas program income and deposit service charges and fees. Noninterest income does not include loan origination fees, which are generally recognized over the life of the related loan as an adjustment to yield using the interest or similar method.

Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

For the three months ended June 30, 2023 September 30, 2023, noninterest income totaled $58.6 million $34.6 million, an increase of $33.1 million, $188,000, or 129.9% 0.5%, compared to $25.5 million $34.4 million for the three months ended June 30, 2022 September 30, 2022.

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

		Three Months Ended June 30,						Three Months Ended September 30,			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2023	2022	Increase (Decrease)	(dollars in thousands; unaudited)	Percent Change		2023	2022	Increase (Decrease)	Percent Change
Deposit service charges and fees	Deposit service charges and fees	$ 989	$ 988	$ 1		0.1 %	Deposit service charges and fees	$ 998	$ 986	$ 12	1.2 %
Loan referral fees		682	208	474		227.9					
Gain on sales of loans, net							Gain on sales of loans, net	107	—	107	100.0
Unrealized gain on equity securities, net	Unrealized gain on equity securities, net	155	—	155		100.0	Unrealized gain on equity securities, net	5	(133)	138	(103.8)
Gain on sales of loans, net		23	—	23		100.0					
Loan referral fees							Loan referral fees	1	—	1	100.0
Other	Other	234	396	(162)		(40.9)	Other	291	260	31	11.9
Noninterest income, excluding BaaS program income and BaaS indemnification income	Noninterest income, excluding BaaS program income and BaaS indemnification income	2,083	1,592	491		30.8	Noninterest income, excluding BaaS program income and BaaS indemnification income	1,402	1,113	289	26.0
Servicing and other BaaS fees	Servicing and other BaaS fees	895	1,159	(264)		(22.8)	Servicing and other BaaS fees	997	1,079	(82)	(7.6)
Transaction fees	Transaction fees	1,052	814	238		29.2	Transaction fees	1,036	940	96	10.2
Interchange fees	Interchange fees	975	628	347		55.3	Interchange fees	1,216	738	478	64.8
Reimbursement of expenses	Reimbursement of expenses	1,026	618	408		66.0	Reimbursement of expenses	1,152	885	267	30.2
BaaS program income	BaaS program income	3,948	3,219	729		22.6	BaaS program income	4,401	3,642	759	20.8
BaaS credit enhancements	BaaS credit enhancements	51,027	14,207	36,820		259.2	BaaS credit enhancements	25,926	17,928	7,998	44.6
Baas fraud enhancements	Baas fraud enhancements	1,537	6,474	(4,937)		(76.3)	Baas fraud enhancements	2,850	11,708	(8,858)	(75.7)
BaaS indemnification income	BaaS indemnification income	52,564	20,681	31,883		154.2	BaaS indemnification income	28,776	29,636	(860)	(2.9)
Total BaaS income	Total BaaS income	56,512	23,900	32,612		136.5	Total BaaS income	33,177	33,278	(101)	(0.3)
Total noninterest income	Total noninterest income	$ 58,595	$ 25,492	$ 33,103		129.9 %	Total noninterest income	$ 34,579	$ 34,391	$ 188	0.5 %

Comparison of the six nine months ended June 30, 2023 September 30, 2023 to the comparable period in the prior year

For the six nine months ended June 30, 2023 September 30, 2023, noninterest income totaled $107.9 million $142.5 million, an increase of $60.4 million $60.6 million, or 127.3% 74.0%, compared to $47.5 million $81.9 million for the six nine months ended June 30, 2022 September 30, 2022.

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

		Six Months Ended June 30,						Nine Months Ended September 30,			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2023	2022	Increase (Decrease)	(dollars in thousands; unaudited)	Percent Change		2023	2022	Increase (Decrease)	Percent Change
Deposit service charges and fees	Deposit service charges and fees	$ 1,899	$ 1,872	$ 27		1.4 %	Deposit service charges and fees	$ 2,897	$ 2,858	$ 39	1.4 %
Loan referral fees	Loan referral fees	682	810	(128)		(15.8)	Loan referral fees	683	810	(127)	(15.7)
Gain on sales of loans, net	Gain on sales of loans, net	146	—	146		100.0	Gain on sales of loans, net	253	—	253	100.0
Unrealized (loss) gain on equity securities, net	Unrealized (loss) gain on equity securities, net	194	—	194		100.0	Unrealized (loss) gain on equity securities, net	199	(135)	334	(247.4)
Other	Other	533	784	(251)		(32.0)	Other	824	1,046	(222)	(21.2)
Noninterest income, excluding BaaS program income and BaaS indemnification income	Noninterest income, excluding BaaS program income and BaaS indemnification income	3,454	3,466	(12)		(0.3)	Noninterest income, excluding BaaS program income and BaaS indemnification income	4,856	4,579	277	6.0
Servicing and other BaaS fees	Servicing and other BaaS fees	1,843	2,328	(485)		(20.8)	Servicing and other BaaS fees	2,840	3,407	(567)	(16.6)
Transaction fees	Transaction fees	1,969	1,307	662		50.7	Transaction fees	3,005	2,247	758	33.7
Interchange fees	Interchange fees	1,764	1,060	704		66.4	Interchange fees	2,980	1,798	1,182	65.7
Reimbursement of expenses	Reimbursement of expenses	1,947	990	957		96.7	Reimbursement of expenses	3,099	1,875	1,224	65.3
BaaS program income	BaaS program income	7,523	5,685	1,838		32.3	BaaS program income	11,924	9,327	2,597	27.8
BaaS credit enhancements	BaaS credit enhancements	93,389	27,282	66,107		242.3	BaaS credit enhancements	119,315	45,210	74,105	163.9
BaaS fraud enhancements	BaaS fraud enhancements	3,536	11,045	(7,509)		(68.0)	BaaS fraud enhancements	6,386	22,753	(16,367)	(71.9)
BaaS indemnification income	BaaS indemnification income	96,925	38,327	58,598		152.9	BaaS indemnification income	125,701	67,963	57,738	85.0
Total BaaS income	Total BaaS income	104,448	44,012	60,436		137.3	Total BaaS income	137,625	77,290	60,335	78.1
Total noninterest income	Total noninterest income	$ 107,902	$ 47,478	$ 60,424		127.3 %	Total noninterest income	$ 142,481	$ 81,869	$ 60,612	74.0 %

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Summary of significant noninterest income for the three and six nine months ended June 30, 2023 September 30, 2023 compared to the three and six nine months ended June 30, 2022 September 30, 2022

A description of our largest noninterest income categories are below:

BaaS Income. Our CCBX segment provides BaaS offerings that enable our broker dealer and digital financial service providers to offer their customers banking services. In exchange for providing these services, we earn fixed fees, volume-based fees and reimbursement of costs depending on the program agreement. In accordance with GAAP, we recognize the reimbursement of noncredit fraud losses on loans and deposits originated through partners and credit enhancements related to the allowance for credit losses and reserve for unfunded commitments provided by the partner as revenue in BaaS income. CCBX credit losses are recognized in the allowance for loan loss and fraud losses are expensed in noninterest expense under BaaS fraud expense. Also in accordance with GAAP, we establish a credit enhancement asset for expected future credit losses through the recognition of BaaS credit enhancement revenue at the same time we establish an allowance for those loans though a provision for credit losses - loans. For more information on the accounting for BaaS allowance for credit losses, reserve for unfunded commitments, credit enhancements and fraud enhancements see the section titled *"CCBX – BaaS Reporting Information."*

Our CCBX segment continues to evolve, and we now has have 22 relationships, at varying stages, as of June 30, 2023 September 30, 2023. We continue to refine the criteria for CCBX partnerships and are exiting relationships where it makes sense and are focusing more on selecting expanding and developing relationships with larger and more established partners, with experienced management teams, existing customer bases and strong financial positions. The sale of $320.9 million in CCBX loans during the quarter ended September 30, 2023 is part of our strategy to strengthen the balance sheet and lower the overall potential credit risk in our loan portfolio. We expect net interest margin will tighten as higher quality loans yield less than higher risk loans and we also expect the size of our CCBX loan portfolio will be smaller than in previous quarters while we work to grow the portfolio with loans that are subject to increased underwriting standards. We expect this process to take two to three quarters. At the same time we will be focused on increasing our efficiency and using technology to reduce future expense growth.

The following table illustrates the activity and evolution in CCBX relationships for the periods presented.

		As of			As of	
(unaudited)	(unaudited)	June 30, 2023	June 30, 2022	(unaudited)	September 30, 2023	September 30, 2022
Active	Active	18	23	Active	18	19
Friends and family / testing	Friends and family / testing	1	2	Friends and family / testing	1	2
Implementation / onboarding	Implementation / onboarding	1	0	Implementation / onboarding	1	0
Signed letters of intent	Signed letters of intent	1	4	Signed letters of intent	1	5
Wind down - preparing to exit relationship	Wind down - preparing to exit relationship	1	0	Wind down - preparing to exit relationship	1	3
Total CCBX relationships	Total CCBX relationships	22	29	Total CCBX relationships	22	29

Deposit Service Charges and Fees. Deposit service charges and fees include service charges on accounts, point-of-sale fees, merchant services fees and overdraft fees. Together they constitute the largest component of our noninterest income, outside of BaaS income.

Loan Referral Fees. We earn loan referral fees when we originate a variable rate loan and the borrower enters into an interest rate swap agreement with a third party to fix the interest rate for an extended period, usually 20 or 25 years. We recognize the a loan referral fee for arranging the interest rate swap. By facilitating interest rate swaps to our clients, we are able to provide them with a long-term, fixed interest rate without the Bank assuming the interest rate risk. Interest rate volatility, swap rates, and the timing of loan closings all impact the demand for long-term fixed rate swaps. The recognition of loan referral fees fluctuates in response to these market conditions and as a result we may recognize more or less, or may not recognize any, loan referral fees in some periods. Current market conditions are making interest rate swap agreements less attractive in the higher rate environment.

Gain on Sales of Loans, net. Gain on sales of loans occurs when we sell certain CCBX loans to the originating partner, in accordance with partner agreements. We sold $320.9 million in CCBX loans during the quarter ended September 30, 2023 and expect to continue selling CCBX loans over the next several months in an effort to optimize and strengthen our portfolio. Gain on sale of loans may also occur when we sell in the secondary market the guaranteed portion (generally

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75% of the principal balance) of the SBA and U.S. Department of Agriculture ("USDA") loans that we originate. This activity fluctuates based on SBA and USDA loan activity.

Unrealized (loss)/gain on equity securities, net. During the three and six nine months ended June 30, 2023 September 30, 2023, we recognized an unrealized gain on equity securities of $155,000 $5,000 and $194,000, $199,000, respectively, compared to the same periods ended June 30, 2022 September 30, 2022, when there was no an unrealized holding gain or loss. loss of $133,000 and $135,000, respectively, recognized. We hold $2.9 million in equity securities focused on entities providing products to the BaaS and financial services space.

Other. This category includes a variety of other income-producing activities, credit card fee income, wire transfer fees, interest earned on bank owned life insurance ("BOLI"), and SBA and USDA servicing fees.

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Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The largest components of noninterest expense are BaaS loan and fraud expense and salaries and employee benefits. Noninterest expense also includes operational expenses, such as legal and professional expenses, data processing and software licenses, occupancy, FDIC assessment, points of sale expense, FDIC assessment, excise taxes, director and staff expenses, marketing and other expenses.

Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

For the three months ended June 30, 2023 September 30, 2023, noninterest expense totaled $51.9 million $56.5 million, an increase of $13.7 million $5.4 million, or 36.0% 10.6%, compared to $38.2 million $51.1 million for the three months ended June 30, 2022 September 30, 2022.

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

		Three Months Ended June 30,						Three Months Ended September 30,			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2023	2022	Increase (Decrease)	(dollars in thousands; unaudited)	Percent Change		2023	2022	Increase (Decrease)	Percent Change
Salaries and employee benefits	Salaries and employee benefits	$ 16,309	$ 12,238	$ 4,071		33.3 %	Salaries and employee benefits	$ 18,087	$ 14,506	$ 3,581	24.7 %
Legal and professional expenses	Legal and professional expenses	4,645	1,002	3,643		363.6	Legal and professional expenses	4,447	2,251	2,196	97.6
Data processing and software licenses	Data processing and software licenses	1,972	1,546	426		27.6	Data processing and software licenses	2,366	1,670	696	41.7
Occupancy	Occupancy	1,143	1,083	60		5.5	Occupancy	1,224	1,147	77	6.7
Point of sale expense							Point of sale expense	1,068	742	326	43.9
FDIC assessments	FDIC assessments	570	855	(285)		(33.3)	FDIC assessments	694	850	(156)	(18.4)
Point of sale expense		814	409	405		99.0					
Excise taxes	Excise taxes	531	564	(33)		(5.9)	Excise taxes	541	588	(47)	(8.0)
Director and staff expenses	Director and staff expenses	519	377	142		37.7	Director and staff expenses	529	475	54	11.4
Marketing	Marketing	115	74	41		55.4	Marketing	169	69	100	144.9
Other	Other	1,722	1,318	404		30.7	Other	1,523	1,522	1	0.1
Noninterest expense, excluding BaaS loan and BaaS fraud expense	Noninterest expense, excluding BaaS loan and BaaS fraud expense	28,340	19,466	8,874		45.6	Noninterest expense, excluding BaaS loan and BaaS fraud expense	30,648	23,820	6,828	28.7
BaaS loan expense	BaaS loan expense	22,033	12,229	9,804		80.2	BaaS loan expense	23,003	15,560	7,443	47.8
BaaS fraud expense	BaaS fraud expense	1,537	6,474	(4,937)		(76.3)	BaaS fraud expense	2,850	11,707	(8,857)	(75.7)
BaaS loan and fraud expense	BaaS loan and fraud expense	23,570	18,703	4,867		26.0	BaaS loan and fraud expense	25,853	27,267	(1,414)	(5.2)
Total noninterest expense	Total noninterest expense	$ 51,910	$ 38,169	$ 13,741		36.0 %	Total noninterest expense	$ 56,501	$ 51,087	$ 5,414	10.6 %

Comparison of the six nine months ended June 30, 2023 September 30, 2023 to the comparable period in the prior year

For the six nine months ended June 30, 2023 September 30, 2023, noninterest expense totaled $96.6 million $153.1 million, an increase of $28.0 million $33.4 million, or 40.8% 27.9%, compared to $68.6 million $119.7 million for the six nine months ended June 30, 2022 September 30, 2022.

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

		Six Months Ended June 30,						Nine Months Ended September 30,			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2023	2022	Increase (Decrease)	(dollars in thousands; unaudited)	Percent Change	2023	2022		Increase (Decrease)	Percent Change
Salaries and employee benefits	Salaries and employee benefits	$ 31,884	$ 23,323	$ 8,561		36.7 %	Salaries and employee benefits	$ 49,971	$ 37,829	$ 12,142	32.1 %
Legal and professional expenses							Legal and professional expenses	12,154	3,961	8,193	206.8
Data processing and software licenses	Data processing and software licenses	3,812	3,050	762		25.0	Data processing and software licenses	6,178	4,719	1,459	30.9
Legal and professional expenses		7,707	1,710	5,997		350.7					
Occupancy	Occupancy	2,362	2,219	143		6.4	Occupancy	3,586	3,366	220	6.5
Point of sale expense							Point of sale expense	2,635	1,399	1,236	88.3
FDIC assessments	FDIC assessments	1,165	1,459	(294)		(20.2)	FDIC assessments	1,859	2,309	(450)	(19.5)
Director and staff expenses							Director and staff expenses	1,674	1,196	478	40.0
Excise taxes	Excise taxes	986	913	73		8.0	Excise taxes	1,527	1,501	26	1.7
Point of sale expense		1,567	657	910		138.5					
Director and staff expenses		1,145	721	424		58.8					
Marketing	Marketing	210	173	37		21.4	Marketing	379	242	137	56.6
Other	Other	2,612	2,795	(183)		(6.5)	Other	4,135	4,318	(183)	(4.2)
Noninterest expense, excluding BaaS loan and BaaS fraud expense	Noninterest expense, excluding BaaS loan and BaaS fraud expense	53,450	37,020	16,430		44.4	Noninterest expense, excluding BaaS loan and BaaS fraud expense	84,098	60,840	23,258	38.2
BaaS loan expense	BaaS loan expense	39,587	20,519	19,068		92.9	BaaS loan expense	62,590	36,079	26,511	73.5
BaaS fraud expense	BaaS fraud expense	3,536	11,045	(7,509)		(68.0)	BaaS fraud expense	6,386	22,752	(16,366)	(71.9)
BaaS loan and fraud expense	BaaS loan and fraud expense	43,123	31,564	11,559		36.6	BaaS loan and fraud expense	68,976	58,831	10,145	17.2
Total noninterest expense	Total noninterest expense	$ 96,573	$ 68,584	$ 27,989		40.8 %	Total noninterest expense	$ 153,074	$ 119,671	$ 33,403	27.9 %

Summary of significant noninterest expense for the three and six nine months ended June 30, 2023 September 30, 2023 compared to the three and six nine months ended June 30, 2022 September 30, 2022

A description of our largest noninterest expense categories are below:

Salaries and Employee Benefits. Salaries and employee benefits are one of the largest components of noninterest expense and include payroll expense, incentive compensation costs, equity compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits continue to increase primarily due to continued hiring staff for our CCBX segment and additional staff for our ongoing banking related growth initiatives. As our CCBX activities grow, we expect to continue to add employees to support these lines of business. During the three and nine months ended September 30, 2023 salaries and employee benefits included one time expenses of $494,000 as part of our initiative to manage costs going forward. This strategy will focus on improving efficiencies while holding staffing fairly level in 2024. As of June 30, 2023 September 30, 2023, we had 482 528 full-time equivalent employees, compared to 433 442 at June 30, 2022 September 30, 2022, a 11.3% 19.5% increase.

Data Processing and Software Licenses. Data processing and software licenses includes expenses related to obtaining and maintaining software required for our various functions. Data processing costs include all of our customer transaction processing and data storage, computer processing, and network costs. Data processing costs grow as we grow and add new products, customers and branches. Additionally, CCBX data processing expenses and software that aids in the reporting of CCBX activities and monitoring of transactions that helps to automate and create other efficiencies in reporting have resulted in increased expenses in the category. These expenses are expected to increase as we invest more in automated processing and as we grow product lines and our CCBX segment.

Legal and Professional Expenses. Legal and professional costs include legal, audit and accounting expenses, consulting fees, fees for recruiting and hiring employees, and IT related security expenses. These expenses fluctuate with the consulting costs related to risk management, development of contracts for CCBX customers, audit and accounting needs, and are impacted by our reporting cycle and timing of legal and professional services. The expenses also reflect the costs associated with our infrastructure enhancement projects to improve our processing, automate processes, reduce compliance costs and enhance our data management. The increase in legal and professional fees was related to data and risk management, building out our infrastructure and increased consulting expenses for projects and enhanced monitoring. We anticipate that our legal and professional fees will decline as projects have been completed and initiatives are achieved, with legal and professional fees leveling off to approximate first quarter 2023 levels staring in fourth quarter 2023.

Data Processing and Software Licenses. Data processing and software licenses includes expenses related to obtaining and maintaining software required for our various functions. Data processing costs include all of our customer transaction processing and data storage, computer processing, and network costs. Data processing costs grow as we grow and add new products, customers and branches and enhance technology. Additionally, CCBX data processing expenses and software that aids in the reporting of CCBX activities and monitoring of transactions that helps to automate and create other efficiencies in reporting have resulted in increased expenses in the category. These expenses are expected to increase as we invest more in automated processing and as we grow product lines and our CCBX segment. We believe that these investments will give us the ability to hold staffing fairly level in 2024.

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Occupancy. Occupancy expenses include rent, utilities, janitorial and other maintenance expenses, property insurances and taxes. Also included is depreciation on building, leasehold, furniture, fixtures and equipment. Although our hybrid and remote workforce is increasing, which helps keep some occupancy expenses down, we do expect occupancy expenses to increase as we continue to grow.

Table Point of Contents Sale Expenses. , Point of sale expenses are incurred as part of the process that allows businesses to accept payment for goods or services. Generally, point of sale expense increases as point of sale activity increases, as does point of sale income which is recognized in other income.

FDIC Assessments. FDIC assessments are assessed to fund the DIF to insure and protect the depositors of insured banks and to resolve failed banks. The assessment rate is based on a number of factors and recalculated each quarter. As deposits increase, the FDIC assessment expense will generally increase. However, our rate has decreased in 2023 as a result of improvement in the various ratios that determine the rate at which insured deposits are assessed, compared to the comparable prior year period. On October 18, 2022 the FDIC finalized an increase of 2 basis points in the initial base deposit insurance assessment rates schedules. The rise is intended to increase the reserve ratio of the Deposit Insurance Fund to 1.35%, the statutory requirement. The increase in the base rates will remain in place until the reserve ratio reaches or exceeds 2.0%.

Director and Staff Expenses. Director and staff expenses includes compensation for director service, continuing education for employees and other director and staff related expenses. As conferences and other professional events have resumed we have seen increased expenses related to employee travel, and continuing education.

Excise Taxes. Excise taxes are assessed on Washington state income and are based on gross income. Gross income is reduced by certain allowed deductions and income attributed to other states is also removed to arrive at the taxable base. Excise taxes increased as a result of increased income subject to excise taxes.

Point of Sale Expenses. Point of sale expenses are incurred as part of the process that allows businesses to accept payment for goods or services. Generally, point of sale expense increases as point of sale activity increases, as does point of sale income which is recognized in other income.

Director and Staff Expenses. Director and staff expenses includes compensation for director service, continuing education for employees and other director and staff related expenses. As conferences and other professional events have resumed we have seen increased expenses related to employee travel, and continuing education.

Marketing. Marketing and promotion costs were flat because we are using more cost-effective advertising options; however, we expect starting to see advertising expenses increase as we deploy more branding and targeted advertising for the community bank and CCBX. We are using more cost-effective advertising options, but expect costs to increase as we expand our marketing plan.

Other. This category includes dues and memberships, office supplies, mail services, telephone, examination fees, internal loan expenses, services charges from banks, operational losses, directors and officer's insurance, donations and miscellaneous other expenses. Provision for unfunded commitments is only included in this category for the three and six nine months ended June 30, 2022 September 30, 2022 and included as the a provision/recapture for unfunded commitments as an expense/credit for the three and six nine months ended June 30, 2023 is included in the provision/recapture for unfunded commitments. September 30, 2023.

BaaS loan and fraud expense. Included in BaaS loan and fraud expense is partner loan expense including overdraft balances and partner BaaS fraud expense. Partner loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. Partner BaaS fraud expense represents noncredit fraud losses on loans and deposits originated through partners. Fraud losses are recorded when incurred as losses in noninterest expense, and the reimbursement from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. For more information on the accounting for BaaS loan and fraud expenses see the section titled “CCBX – BaaS Reporting Information.”

The following table presents, for the periods indicated, the BaaS loan and fraud expenses:

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
BaaS loan expense	BaaS loan expense	$ 22,033	$ 12,229	$ 39,587	$ 20,519	BaaS loan expense	$ 23,003	$ 15,560	$ 62,590	$ 36,079
BaaS fraud expense	BaaS fraud expense	1,537	6,474	3,536	11,045	BaaS fraud expense	2,850	11,707	6,386	22,752
Total BaaS loan and fraud expense	Total BaaS loan and fraud expense	$ 23,570	$ 18,703	$ 43,123	$ 31,564	Total BaaS loan and fraud expense	$ 25,853	$ 27,267	$ 68,976	$ 58,831

Income Tax Expense

The amount of income tax expense we incur is impacted by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at current income tax rates in effect for the

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period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce our deferred tax assets to the amount expected to be realized. The Company is subject to various state taxes that are assessed as CCBX activities and employees expand into other states, which has increased the overall tax rate used in calculating the provision for income taxes in the current and future periods. On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, which, among other things, implements a new 15%

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corporate alternative minimum tax for certain large corporations, a 1% excise tax on stock buybacks, and several tax incentives to promote clean energy and climate initiatives. These provisions were effective beginning January 1, 2023. Based on its current analysis of the provisions, we do not expect this legislation to have a material impact on our consolidated financial statements.

Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

For the three months ended June 30, 2023 September 30, 2023, income tax expense totaled $3.9 million $2.8 million, compared to $2.9 million $3.0 million for the three months ended June 30, 2022 September 30, 2022. The $937,000 increase $180,000 decrease in income tax expense is the result of higher slightly lower net income, combined with partially offset by the addition of various state taxes that are being assessed as CCBX activities and employees expanding into other states, which has increased the overall tax rate used in calculating the provision for income taxes in the current and future periods. The effective tax rate was 23.1% 21.3% for the three months ended June 30, 2023 September 30, 2023, compared to 22.4% 21.1% for the three months ended June 30, 2022 September 30, 2022. The effective tax rate was higher for the three months ended June 30, 2023 September 30, 2023 due to the addition of various state taxes that are being assessed as CCBX activities and employees expand into other states.

Comparison of the six nine months ended June 30, 2023 September 30, 2023 to the comparable period in the prior year

For the six nine months ended June 30, 2023 September 30, 2023 income tax expense totaled $6.9 million $9.7 million, compared to $4.6 million $7.6 million for the six nine months ended June 30, 2022 September 30, 2022. The $2.3 million $2.1 million increase in income tax expense is the result of higher net income. Our effective tax rates for the six nine months ended June 30, 2023 September 30, 2023 and 2022 were 21.5% 21.4% and 21.9% 21.6%, respectively.

Segment Information

As defined in ASC 280, *Segment Reporting*, an operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise’s chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on an internal performance measurement accounting system, which provides line of business results. This system uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income and expense. A primary objective of this measurement system and related internal financial reporting practices are to produce consistent results that reflect the underlying financial impact of the segments on the Company and to provide a basis of support for strategic decision making. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Based on these criteria, we have identified three segments: the community bank, CCBX and treasury & administration. The primary focus of the community bank is on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has 22 partners as of June 30, 2023 September 30, 2023. The treasury & administration segment includes treasury management, overall administration and all other aspects of the Company.

The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The Company continues to evaluate its methodology on allocating items to the Company's various segments to support strategic business decisions by the Company's executive leadership. Income and expenses

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that are specific to a segment are directly posted to each segment. Additionally, certain indirect expenses are allocated to each segment utilizing various metrics, such as number of employees, utilization of space, and allocations based on loan and deposit balances. We have implemented a transfer pricing process that credits or charges the community bank and CCBX segments with intrabank interest income or expense for the difference in average loans and average deposits, with the treasury & administration segment as the offset for those entries. The accounting policies of the segments are the same as those described in "*Note 1 – Description of Business and Summary of Significant Accounting Policies*" in the accompanying notes to the consolidated financial statements included in the Company's most recently filed 10-K report.

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The following table presents summary financial information for each segment for the periods indicated:

		June 30, 2023				December 31, 2022					September 30, 2023			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Total	Community Bank	CCBX	Treasury & Administration	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Consolidated
Assets	**Assets**									**Assets**				
Cash and Due from Banks	Cash and Due from Banks	$ 4,382	$ 7,179	$ 263,499	$ 275,060	$ 4,603	$ 12,899	$ 324,637	$ 342,139	Cash and Due from Banks	$ 4,858	$ 10,485	$ 459,603	$ 474,946
Intrabank asset	Intrabank asset	—	304,408	(304,408)	—	—	254,096	(254,096)	—	Intrabank asset	—	560,463	(560,463)	—
Securities	Securities	—	—	110,730	110,730	—	—	98,353	98,353	Securities	—	—	141,489	141,489
Loans held for sale	Loans held for sale	—	35,923	—	35,923	—	—	—	—	Loans held for sale	—	—	—	—
Total loans receivable	Total loans receivable	1,713,034	1,294,519	—	3,007,553	1,614,752	1,012,504	—	2,627,256	Total loans receivable	1,784,661	1,182,374	—	2,967,035
Allowance for credit losses	Allowance for credit losses	(20,653)	(90,109)	—	(110,762)	(20,636)	(53,393)	—	(74,029)	Allowance for credit losses	(21,316)	(79,769)	—	(101,085)
All other assets	All other assets	27,164	131,260	58,355	216,779	25,508	76,111	49,129	150,748	All other assets	30,983	118,859	46,038	195,880
Total assets	Total assets	$1,723,927	$1,683,180	$ 128,176	$3,535,283	$1,624,227	$1,302,217	$ 218,023	$3,144,467	Total assets	$1,799,186	$1,792,412	$ 86,667	$ 3,678,265
Liabilities	**Liabilities**									**Liabilities**				
Total deposits	Total deposits	$1,509,458	$1,653,114	$ —	$3,162,572	$1,538,218	$1,279,303	$ —	$2,817,521	Total deposits	$1,537,468	$1,752,232	$ —	$ 3,289,700
Total borrowings	Total borrowings	—	—	47,658	47,658	—	—	47,587	47,587	Total borrowings	—	—	47,695	47,695
Intrabank liability	Intrabank liability	207,651	—	(207,651)	—	80,392	—	(80,392)	—	Intrabank liability	254,268	—	(254,268)	—
All other liabilities	All other liabilities	6,818	30,066	15,507	52,391	5,617	22,914	7,334	35,865	All other liabilities	7,450	40,180	8,790	56,420

Total liabilities	Total liabilities	$1,723,927	$1,683,180	$ (144,486)	$3,262,621	$1,624,227	$1,302,217	$ (25,471)	$2,900,973	Total liabilities	$1,799,186	$1,792,412	$ (197,783)	$ 3,393,815

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Community bank total assets as of June 30, 2023 September 30, 2023 increased $99.7 million $175.0 million, or 6.1% 10.8%, to $1.72 billion $1.80 billion, compared to $1.62 billion as of December 31, 2022. Loans receivable net of deferred fees for the community bank segment increased $98.3 million $169.9 million, or 6.1% 10.5%, to $1.71 billion $1.78 billion as of June 30, 2023 September 30, 2023, compared to $1.61 billion as of December 31, 2022. The increase in community bank loans receivable is the result of gross loan growth of $98.5 million, which includes $1.1 million in PPP loan forgiveness and paydowns during the six months ended June 30, 2023 $170.8 million. Total community bank deposits decreased $28.8 million, $750,000, or 1.9% 0.05%, to $1.51 billion $1.54 billion, as of June 30, 2023 September 30, 2023, compared to $1.54 billion as of December 31, 2022. The decrease in community bank deposits was a result of pricing disciplines as some customer sought higher rate products elsewhere. Our cost of deposits for the community bank was 0.98% 1.31% for the three months ended June 30, 2023 September 30, 2023.

CCBX total assets as of June 30, 2023 September 30, 2023 increased $381.0 million $490.2 million, or 29.3% 37.6%, to $1.68 billion $1.79 billion, compared to $1.30 billion as of December 31, 2022. During the six nine months ended June 30, 2023 September 30, 2023, $189.8 million $474.8 million in CCBX loans were transferred to loans held for sale, with $153.9 million $474.8 million in loans sold and $35.9 million no loans remaining in loans held for sale as of June 30, 2023; we had no September 30, 2023 and December 31, 2022. A portion of these loans held for sale as of December 31, 2022. were sold at par and a portion were sold with a gain on sale. Pricing is dependent upon the agreement with the partner. The Company sells CCBX loans to manage loan portfolio size by partner and by loan category, with such limits established and documented in the relevant partner agreements. Total CCBX loans receivable increased $282.0 million $169.9 million, or 27.9% 16.8%, to $1.29 billion $1.18 billion as of June 30, 2023 September 30, 2023, compared to $1.01 billion as of December 31, 2022. The increase in loans receivable is the result of increased activity with CCBX partners. During the quarter ended September 30, 2023, we deliberately reduced our other consumer and other loans portfolio in an effort to optimize loan portfolio and will work to continue growing the CCBX portfolio in future quarters with loans that have lower potential risk of credit deterioration and are more aligned with our long term objectives. CCBX allowance for credit losses increased to $90.1 million $79.8 million as of June 30, 2023 September 30, 2023, compared to $53.4 million as of December 31, 2022 as a result of increased loss rates and balances on CCBX loans which has impacted increased the allowance calculation. calculation/requirement. CCBX partner agreements provide for, and the Company has collected in full, credit enhancements that cover the $31.0 million $36.8 million and $63.2 million $100.0 million in net charge-offs on CCBX loans for the three and six nine months ended June 30, 2023 September 30, 2023. Total CCBX deposits increased $373.8 million $472.9 million, or 29.2% 37.0%, to $1.65 billion $1.75 billion, compared to $1.28 billion as of December 31, 2022 as a result of growth within the CCBX relationships. This does not include an additional $9.9 million $51.9 million in CCBX deposits that are were transferred off the balance sheet as of June 30, 2023. to provide for increased FDIC insurance coverage to certain customers.

Treasury & administration total assets as of June 30, 2023 September 30, 2023 decreased $89.8 million $131.4 million, or 41.2% 60.2%, to $128.2 million $86.7 million, compared to $218.0 million as of December 31, 2022. Total securities increased $12.4 million $43.1 million, or 12.6% 43.9%, to $110.7 million $141.5 million as of June 30, 2023 September 30, 2023, compared to $98.4 million as of December 31, 2022. , as we increased the amount of CRA qualified securities we hold. Total borrowings were $47.7 million as of June 30, 2023 September 30, 2023 and $47.6 million as of December 31, 2022.

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The following tables present summary financial information for each segment for the periods indicated:

		Three months ended June 30, 2023				Three months ended June 30, 2022					Three months ended September 30, 2023			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Total	Community Bank	CCBX	Treasury & Administration	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Consolidated
Net interest income, before intrabank transfer	Net interest income, before intrabank transfer	$ 22,904	$ 36,620	$ 2,826	$ 62,350	$ 18,568	$ 19,926	$ 1,392	$ 39,886	Net interest income, before intrabank transfer	$ 22,306	$ 35,895	$ 4,028	$ 62,229
Interest income (expense) intrabank transfer		(2,490)	3,487	(997)	—	303	532	(835)	—					
(Recapture)/Provision for credit losses - loans		(47)	52,645	—	52,598	108	13,986	—	14,094					
(Recapture)/Provision for unfunded commitments		(340)	(5)	—	(345)	—	—	—	—					
Interest (expense) income intrabank transfer										Interest (expense) income intrabank transfer	(3,036)	5,095	(2,059)	—
Provision/(recapture) for credit losses - loans										Provision/(recapture) for credit losses - loans	664	26,493	—	27,157

Provision for unfunded commitments										Provision for unfunded commitments	—	96	—	96
Noninterest income (1)	Noninterest income (1)	1,613	56,718	264	58,595	1,355	24,048	89	25,492	Noninterest income (1)	1,162	33,296	121	34,579
Noninterest expense	Noninterest expense	9,592	35,196	7,122	51,910	7,721	24,527	5,921	38,169	Noninterest expense	10,065	38,555	7,881	56,501
Net income before income taxes	Net income before income taxes	12,822	8,989	(5,029)	16,782	12,397	5,993	(5,275)	13,115	Net income before income taxes	9,703	9,142	(5,791)	13,054
Income taxes	Income taxes	2,949	2,089	(1,162)	3,876	2,777	1,344	(1,182)	2,939	Income taxes	2,068	1,951	(1,235)	2,784
Net Income	Net Income	$ 9,873	$ 6,900	$ (3,867)	$ 12,906	$ 9,620	$ 4,649	$ (4,093)	$ 10,176	Net Income	$ 7,635	$ 7,191	$ (4,556)	$ 10,270

(1) For the three months ended June 30, 2023 September 30, 2023, CCBX noninterest income includes credit enhancements of $51.0 million $25.9 million, fraud enhancements of $1.5 million $2.9 million, and BaaS program income of $3.9 million $4.4 million. For the three months ended June 30, 2022 September 30, 2022, CCBX noninterest income includes credit enhancements of $14.2 million $17.9 million, fraud enhancements of $6.5 million $11.7 million and BaaS program income of $3.2 million $3.6 million.

		Six Months Ended June 30, 2023				Six Months Ended June 30, 2022					Nine Months	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Total	Community Bank	CCBX	Treasury & Administration	Total	(dollars in thousands; unaudited)	Community Bank	CCB
Net interest income, before intrabank transfer	Net interest income, before intrabank transfer	$ 44,582	$ 66,415	$ 5,844	$ 116,841	$ 35,773	$ 31,799	$ 1,582	$ 69,154	Net interest income, before intrabank transfer	$ 66,887	$ 102,
Interest income (expense) intrabank transfer		(3,569)	6,139	(2,570)	—	431	730	(1,161)	—			
Interest (expense) income intrabank transfer										Interest (expense) income intrabank transfer	(6,605)	11,
Provision for credit losses - loans	Provision for credit losses - loans	381	95,761	—	96,142	452	26,584	—	27,036	Provision for credit losses - loans	1,045	122,
(Recapture)/Provision for unfunded commitments	(Recapture)/Provision for unfunded commitments	(203)	11	—	(192)	—	—	—	—	(Recapture)/Provision for unfunded commitments	(203)	
Noninterest income(1)	Noninterest income(1)	2,704	104,798	400	107,902	2,912	44,389	177	47,478	Noninterest income(1)	3,866	138,
Noninterest expense	Noninterest expense	18,685	63,634	14,254	96,573	15,367	42,934	10,283	68,584	Noninterest expense	28,748	102,
Net income before income taxes	Net income before income taxes	24,854	17,946	(10,580)	32,220	23,297	7,400	(9,685)	21,012	Net income before income taxes	34,558	27,
Income taxes	Income taxes	5,340	3,856	(2,273)	6,923	5,103	1,626	(2,123)	4,606	Income taxes	7,409	5,
Net Income	Net Income	$ 19,514	$ 14,090	$ (8,307)	$ 25,297	$ 18,194	$ 5,774	$ (7,562)	$ 16,406	Net Income	$ 27,149	$ 21,

(1) For the six nine months ended June 30, 2023 September 30, 2023, CCBX noninterest income includes credit enhancements of $93.4 million $119.3 million, fraud enhancements of $3.5 million $6.4 million and BaaS program income of $7.5 million $11.9 million. For the six nine months ended June 30, 2022 September 30, 2022, CCBX noninterest income includes credit enhancements of $27.3 million $45.2 million, fraud enhancements of $11.0 million $22.8 million and BaaS program income of $5.7 million $9.3 million.

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Comparison of the quarter ended June 30, 2023 September 30, 2023 to the comparable quarter in the prior year

Net interest income before intrabank interest expense for the community bank was $22.9 million $22.3 million for the quarter ended June 30, 2023 September 30, 2023, an increase of $4.3 million $2.1 million, or 23.4% 10.2%, compared to $18.6 million $20.2 million for the quarter ended June 30, 2022 September 30, 2022. The increase in net interest income is largely due to increased yield on loans resulting from loan growth and higher interest rates. As a result of the community bank having higher average loans than deposits for the quarter ended June 30, 2023 September 30, 2023 compared to the quarter ended June 30, 2022 September 30, 2022, intrabank interest expense for the community bank was $2.5 million $3.0 million for the quarter ended June 30, 2023 September 30, 2023, compared to intrabank interest income of $303,000 $441,000 for the quarter ended June 30, 2022 September 30, 2022. There was a small recapture provision for credit losses - loans for the community bank of $47,000 $664,000 for the quarter ended June 30, 2023 September 30, 2023, compared to a provision small recapture of $108,000 $238,000 for the quarter ended June 30, 2022 September 30, 2022. Net charge-offs (recoveries) to average loans for the community bank segment have remained consistently low and were 0.00% for the quarter ended June 30, 2023 September 30, 2023 and (0.01)% 0.10% for the quarter ended June 30, 2022 September 30, 2022. Noninterest income for the community bank was $1.6 million $1.2 million, for the quarter ended June 30, 2023 September 30, 2023, an increase of $258,000, $23,000, or 19.0% 2.0%, compared to $1.4 million $1.1 million for the quarter ended June 30, 2022 and primarily due to a $474,000 increase in loan referral fees. September 30, 2022. Noninterest expenses for the community bank increased $1.9 million $1.7 million, or 24.2% 20.3%, to $9.6 million $10.1 million as of June 30, 2023 September 30, 2023, compared to $7.7 million $8.4 million as of June 30, 2022 September 30, 2022. The increase in noninterest expense is largely due to increased salaries and employee benefits as a result of growth, higher software licenses maintenance and subscription costs related to new reporting software that helps monitor and assess risk and to automate and create efficiencies in reporting, increased legal and professional fees related to data and risk management, building out our infrastructure and increased consulting expenses for projects and enhanced monitoring and other expense increases related to growth.

Net interest income for CCBX before intrabank interest income was $36.6 million $35.9 million for the quarter ended June 30, 2023 September 30, 2023, an increase of $16.7 million $9.5 million, or 83.8% 36.1%, compared to $19.9 million $26.4 million for the quarter ended June 30, 2022 September 30, 2022. The increase in net interest income is due to loan growth and higher interest rates from active CCBX relationships. During the quarter ended September 30, 2023 we sold $320.9 million in higher yielding CCBX loans that have a greater potential for credit deterioration in an effort to optimize our CCBX loan portfolio. The impact of these sales and the changes we are making in an effort to optimize and strengthen the balance sheet are expected to be reflected in our earnings in future periods. We expect to see lower net income in the short term with lower loan yields and compressed margins but we will work to continue growing the CCBX portfolio with loans that we believe will strengthen the balance sheet and provide for long term stability and profitability. As a result of having higher average deposits than loans for the quarter ended June 30, 2023 September 30, 2023 compared to the quarter ended June 30, 2022 September 30, 2022 intrabank interest income for CCBX was $3.5 million $5.1 million for the quarter ended June 30, 2023 September 30, 2023, compared to $532,000 $1.3 million for the quarter ended June 30, 2022 September 30, 2022. Provision for credit losses - loans was $52.6 million $26.5 million as a result of loan origination growth and as a result of increased loss rates and balances on CCBX loans which has impacted the allowance calculation for the quarter ended June 30, 2023 September 30, 2023, compared to $14.0 million $18.7 million for the quarter ended June 30, 2022 September 30, 2022. CCBX partner agreements provide for, and the Company has collected in full, credit enhancements that cover the $31.0 million $36.8 million in net charge-offs on CCBX loans for the quarter ended June 30, 2023 September 30, 2023. The $52.6 million $26.5 million provision on CCBX loans includes $51.0 million $25.8 million for partner loans with credit enhancement on them and $1.6 million $664,000 on CCBX loans that the Company is responsible for. In accordance with the program agreement, the Company is responsible for credit losses on approximately 10% of a $180.5 million $231.9 million loan portfolio, or $18.0 million $23.2 million in partner loans at June 30, 2023 September 30, 2023. Noninterest income for CCBX was $56.7 million $33.3 million for the quarter ended June 30, 2023 September 30, 2023, an increase of $32.7 million, $5,000, or 135.9% 0.0%, compared to $24.0 million $33.3 million for the quarter ended June 30, 2022 September 30, 2022, due to an increase of $36.8 million $8.0 million in BaaS credit enhancements to establish a credit enhancement asset for future credit losses due from our CCBX partners, $4.9 million $8.9 million decrease in BaaS fraud enhancements and $729,000 $759,000 in BaaS program income, which was the result of increased activity with broker dealers and digital financial service providers. Noninterest expenses for CCBX increased $10.7 million $3.7 million, or 43.5% 10.6%, to $35.2 million $38.6 million as of June 30, 2023 September 30, 2023, compared to $24.5 million $34.9 million as of June 30, 2022 September 30, 2022. The increase in noninterest expense is largely due to growth from active CCBX relationships resulting in an increase in BaaS loan expense, BaaS fraud expense from increased CCBX loan originations and increased salaries and benefits, for the quarter ended June 30, 2023 September 30, 2023, compared to the quarter ended June 30, 2022 September 30, 2022. For more information on the accounting for BaaS income and expenses see the section titled *"CCBX – BaaS Reporting Information."*

Net interest income before intrabank interest expense for treasury & administration was $2.8 million $4.0 million for the quarter ended June 30, 2023 September 30, 2023, an increase of $1.4 million, or 103.0% 56.2%, compared to $1.4 million $2.6 million for the quarter ended June 30, 2022 September 30, 2022, as a result of increased interest rates. Noninterest income increased $175,000, $160,000, or 196.6% 410.3%, to $264,000 $121,000 for the quarter ended June 30, 2023 September 30, 2023, compared to $89,000 $(39,000) for the quarter ended June 30, 2022 September 30, 2022. Noninterest expense increased $1.2 million, or 20.3%, to $7.1 million was flat at $7.9 million for the quarter ended June 30, 2023, compared to $5.9 million September 30, 2023 and for the quarter ended June 30, 2022, largely as a result September 30, 2022.

Table of increased salaries and employee benefits and legal and professional fees associated with our infrastructure enhancement projects to improve processing, automate processes, reduce compliance costs, and enhance our data management as a result of growth. Contents,

Comparison of the six nine months ended June 30, 2023 September 30, 2023 to the comparable period in the prior year

Net interest income before intrabank interest expense for the community bank was $44.6 million $66.9 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $8.8 million $10.9 million, or 24.6% 19.4%, compared to $35.8 million $56.0 million for the six nine months ended June 30, 2022 September 30, 2022. The increase in net interest income is largely due to increased yield on loans resulting from loan growth and higher interest rates. As a result of the community bank having higher average loans than deposits for the six nine months ended June 30, 2023

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September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022, intrabank interest expense for the community bank was $3.6 million $6.6 million for the six nine months ended June 30, 2023 September 30, 2023, compared to intrabank interest income of $431,000 $872,000 for the six nine months ended June 30, 2022 September 30, 2022. Provision for credit losses - loans for the community bank was $381,000 $1.0 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $452,000 $214,000 for the six nine months ended June 30, 2022 September 30, 2022. Net charge-offs to average loans for the community bank segment have remained consistently low and was 0.01% 0.00% and 0.00% 0.03% for the six nine months ended June 30, 2023 September 30, 2023, and 2022, respectively. Noninterest income for the community bank was $2.7 million $3.9 million for the six nine months ended June 30, 2023 September 30, 2023, a decrease of $208,000, $186,000, or 7.1% 4.6%, compared to $2.9 million $4.1 million for the six nine months ended June 30, 2022 September 30, 2022. Loan referral fees decreased $128,000 $127,000 for the six nine months ended June 30, 2023 September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022. The recognition of loan referral fees fluctuates in response to market conditions and as a result we may recognize more or less, or may not recognize any, loan referral fees in some periods. Additionally, in the six nine months ended June 30, 2022 September 30, 2022, there was a no $135,000 net unrealized gain loss on equity securities recognized compared to an unrealized gain of $194,000 $199,000 in the six nine months ended June 30, 2023 September 30, 2023. Noninterest expenses for the community bank increased $3.3 million $5.0 million, or 21.6% 21.1%, to $18.7 million $28.7 million as of June 30, 2023 September 30, 2023, compared to $15.4 million $23.7 million as of June 30, 2022 September 30, 2022. The increase in noninterest expense is largely due to increased salaries and employee benefits as a result of growth, higher software licenses maintenance and subscription costs related to new reporting software that helps monitor and assess risk and to automate and create efficiencies in reporting, and increased legal and professional fees associated with our infrastructure enhancement projects to improve processing, automate processes, reduce compliance costs, and enhance our data management.

Net interest income for CCBX before intrabank interest income was $66.4 million $102.3 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $34.6 million $44.1 million, or 108.9% 75.9%, compared to $31.8 million $58.2 million for the six nine months ended June 30, 2022 September 30, 2022. The increase in net interest income is due to loan growth from active CCBX relationships. During the quarter ended September 30, 2023, we sold $320.9 million in higher yielding CCBX loans that have a greater potential for credit deterioration in an effort to optimize our CCBX loan portfolio. The impact of these sales and the changes we are making in an effort to optimize and strengthen the balance sheet are expected to be reflected in our earnings in future periods. We expect to see lower net income in the short term with lower loan yields and compressed margins but we will work to continue growing the CCBX portfolio with loans that we believe will strengthen the balance sheet and provide for long term stability and profitability. As a result of having higher average deposits than loans for the six nine months ended June 30, 2023 September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022 intrabank interest income for CCBX was $6.1 million $11.2 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $730,000 $2.1 million for the six nine months ended June 30, 2022 September 30, 2022. Provision for credit losses - loans was $95.8 million $122.3 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $26.6 million $45.3 million for the six nine months ended June 30, 2022 September 30, 2022, as a result of loan origination growth and as a result of increased loss rates and balances on CCBX loans which has impacted the allowance calculation. Noninterest income for CCBX was $104.8 million $138.1 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $60.4 million, or 136.1% 77.8%, compared to $44.4 million $77.7 million for the six nine months ended June 30, 2022 September 30, 2022, due to an increase of $66.1 million $74.1 million in BaaS credit enhancements related to the allowance for credit losses, $7.5 million $16.4 million decrease in BaaS fraud enhancements and $1.8 million $2.6 million increase in total BaaS program income, which was the result of increased activity with broker dealers and digital financial service providers. Noninterest expenses for CCBX increased $20.7 million $24.4 million, or 48.2% 31.4%, to $63.6 million $102.2 million as of June 30, 2023 September 30, 2023, compared to $42.9 million $77.8 million as of June 30, 2022 September 30, 2022. The increase in noninterest expense is largely due to growth from active CCBX relationships resulting in an increase in BaaS loan expense, BaaS fraud expense and increased salaries and benefits, for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022. Also contributing to the increase in noninterest expense is higher legal and professional fees associated with our infrastructure enhancement projects to improve processing, automate processes, reduce compliance costs, and enhance our data management. For more information on the accounting for BaaS income and expenses see the section titled *"CCBX – BaaS Reporting Information."*

Net interest income before intrabank interest expense for treasury & administration was $5.8 million $9.9 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $4.3 million $5.7 million, or 269.4% 137.3%, compared to $1.6 million $4.2 million for the six nine months ended June 30, 2022 September 30, 2022, as a result of increased interest rates. Noninterest income increased $223,000, $385,000, or 126.0% 283.1%, to $400,000 $521,000 for the six nine months ended June 30, 2023 September 30, 2023, compared to $177,000 $136,000 for the six nine months ended June 30, 2022 September 30, 2022. Noninterest expense increased $4.0 million, or 38.6% 22.0%, to $14.3 million $22.1 million for the six nine months ended June 30, 2023 September 30,

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2023, compared to $10.3 million $18.1 million for the six nine months ended June 30, 2022 September 30, 2022, largely as a result of increased salaries and employee benefits and legal and professional fees as a result of growth.

Financial Condition

Our total assets increased $390.8 million $533.8 million, or 12.4% 17.0%, to $3.54 billion $3.68 billion at June 30, 2023 September 30, 2023 from $3.14 billion at December 31, 2022. The increase is primarily the result of $380.3 million $339.8 million increase in loans receivable during the six nine months ended June 30, 2023 September 30, 2023.

Loans Held For Sale

During the quarter ended June 30, 2023 September 30, 2023, $88.6 million $285.0 million in CCBX loans were transferred to loans held for sale, with $80.0 million $320.9 million in loans sold. A portion of these loans were sold at par and a portion were sold with a gain on sale of $23,000. $107,000. As

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of June 30, 2023 $35.9 million in residential real estate secured lines of credit loans remain in loans held for sale. At September 30, 2023 and December 31, 2022, there were no loans in loans held for sale.

Loan Portfolio

Our primary source of income is derived through interest earned on loans. A substantial portion of our loan portfolio consists of commercial real estate loans and commercial and industrial loans in the Puget Sound region. Our consumer and other loans also represent a significant portion of our loan portfolio with the growth of our CCBX segment. Our loan portfolio represents the highest yielding component of our earning assets.

As of June 30, 2023 September 30, 2023, loans receivable totaled $3.01 billion $2.97 billion, an increase of $380.3 million $339.8 million, or 14.5% 12.9%, compared to December 31, 2022. Total loans receivable is net of $6.7 million $7.4 million in net deferred origination fees, $60,000 of which is attributed to PPP loans. fees. The increase includes CCBX loan growth of $282.0 million $169.9 million, or 27.9% 16.8%, and community bank loan growth of $98.5 million $170.8 million, or 6.1%, which includes a $1.1 million, or 23.5%, reduction in PPP loans due to forgiveness and principal paydowns. 10.5%.

Loans as a percentage of deposits were 96.2% 90.2% as of June 30, 2023 September 30, 2023, compared to 93.2% 93.3% as of December 31, 2022. We remain focused on serving our communities and markets by growing loans and funding those loans with customer deposits.

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

	As of June 30, 2023	As of December 31, 2022	As of September 30, 2023	As of December 31, 2022

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Amount	Percent	Amount	Percent	(dollars in thousands; unaudited)	Amount	Percent	Amount	Percent
Commercial and industrial loans:	Commercial and industrial loans:					Commercial and industrial loans:				
PPP loans	PPP loans	$ 3,595	0.1 %	$ 4,699	0.2 %	PPP loans	$ 3,310	0.1 %	$ 4,699	0.2 %
Capital call lines	Capital call lines	138,428	4.6	146,029	5.5	Capital call lines	114,174	3.8	146,029	5.5
All other commercial & industrial loans	All other commercial & industrial loans	211,806	7.0	161,900	6.1	All other commercial & industrial loans	213,791	7.2	161,900	6.1
Total commercial and industrial loans:	Total commercial and industrial loans:	353,829	11.7	312,628	11.8	Total commercial and industrial loans:	331,275	11.1	312,628	11.8
Real estate loans:	Real estate loans:					Real estate loans:				
Construction, land and land development	Construction, land and land development	186,706	6.2	214,055	8.1	Construction, land and land development	167,686	5.6	214,055	8.1
Residential real estate	Residential real estate	463,179	15.4	449,157	17.1	Residential real estate	477,147	16.1	449,157	17.1
Commercial real estate	Commercial real estate	1,164,088	38.6	1,048,752	39.8	Commercial real estate	1,237,849	41.6	1,048,752	39.8
Consumer and other loans	Consumer and other loans	846,459	28.1	608,771	23.2	Consumer and other loans	760,463	25.6	608,771	23.2
Gross loans receivable	Gross loans receivable	3,014,261	100.0 %	2,633,363	100.0 %	Gross loans receivable	2,974,420	100.0 %	2,633,363	100.0 %
Net deferred origination fees - PPP loans	Net deferred origination fees - PPP loans	(60)		(82)		Net deferred origination fees - PPP loans	(52)		(82)	
Net deferred origination fees - all other loans	Net deferred origination fees - all other loans	(6,648)		(6,025)		Net deferred origination fees - all other loans	(7,333)		(6,025)	
Loans receivable	Loans receivable	$ 3,007,553		$ 2,627,256		Loans receivable	$ 2,967,035		$ 2,627,256	
Loan Yield (1)	Loan Yield (1)	10.85 %		8.12 %		Loan Yield (1)	10.84 %		8.12 %	

(1) Loan yield is annualized for the three months ended for each period presented and includes loans held for sale and nonaccrual loans.

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The following tables detail the loans by segment which are included in the total loan portfolio table above:

Community Bank	Community Bank	As of				Community Bank	As of			
		June 30, 2023		December 31, 2022			September 30, 2023		December 31, 2022	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total	(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total
Commercial and industrial loans:	Commercial and industrial loans:					Commercial and industrial loans:				
PPP loans	PPP loans	$ 3,595	0.2 %	$ 4,699	0.3 %	PPP loans	$ 3,310	0.2 %	$ 4,699	0.3 %
All other commercial & industrial loans	All other commercial & industrial loans	151,483	8.8	146,982	9.1	All other commercial & industrial loans	154,922	8.6	146,982	9.1
Real estate loans:	Real estate loans:					Real estate loans:				

Construction, land and land development loans	Construction, land and land development loans	186,706	10.9	214,055	13.2	Construction, land and land development loans	167,686	9.4	214,055	13.2
Residential real estate loans	Residential real estate loans	211,966	12.3	204,581	12.6	Residential real estate loans	225,372	12.6	204,581	12.6
Commercial real estate loans	Commercial real estate loans	1,164,088	67.7	1,048,752	64.7	Commercial real estate loans	1,237,849	69.1	1,048,752	64.7
Consumer and other loans:	Consumer and other loans:					Consumer and other loans:				
Other consumer and other loans	Other consumer and other loans	1,457	0.1	1,725	0.1	Other consumer and other loans	2,483	0.1	1,725	0.1
Gross Community Bank loans receivable	Gross Community Bank loans receivable	1,719,295	100.0 %	1,620,794	100.0 %	Gross Community Bank loans receivable	1,791,622	100.0 %	1,620,794	100.0 %
Net deferred origination fees	Net deferred origination fees	(6,261)		(6,042)		Net deferred origination fees	(6,961)		(6,042)	
Loans receivable	Loans receivable	$ 1,713,034		$ 1,614,752		Loans receivable	$ 1,784,661		$ 1,614,752	
Loan Yield(1)	Loan Yield(1)	6.28 %		5.32 %		Loan Yield(1)	6.20 %		5.32 %	

(1) Loan yield is annualized for the three months ended for each period presented and includes loans held for sale and nonaccrual loans.

CCBX	CCBX	As of				CCBX	As of			
		June 30, 2023		December 31, 2022			September 30, 2023		December 31, 2022	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total	(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total
Commercial and industrial loans:	Commercial and industrial loans:					Commercial and industrial loans:				
Capital call lines	Capital call lines	$ 138,428	10.7 %	$ 146,029	14.4 %	Capital call lines	$ 114,174	9.6 %	$ 146,029	14.4 %
All other commercial & industrial loans	All other commercial & industrial loans	60,323	4.7	14,918	1.5	All other commercial & industrial loans	58,869	5.0	14,918	1.5
Real estate loans:	Real estate loans:					Real estate loans:				
Residential real estate loans	Residential real estate loans	251,213	19.4	244,576	24.2	Residential real estate loans	251,775	21.3	244,576	24.2
Consumer and other loans:	Consumer and other loans:					Consumer and other loans:				
Credit cards	Credit cards	379,642	29.3	279,644	27.6	Credit cards	440,993	37.3	279,644	27.6
Other consumer and other loans	Other consumer and other loans	465,360	35.9	327,402	32.3	Other consumer and other loans	316,987	26.8	327,402	32.3
Gross CCBX loans receivable	Gross CCBX loans receivable	1,294,966	100.0 %	1,012,569	100.0 %	Gross CCBX loans receivable	1,182,798	100.0 %	1,012,569	100.0 %
Net deferred origination (fees) costs	Net deferred origination (fees) costs	(447)		(65)		Net deferred origination (fees) costs	(424)		(65)	

Loans receivable	Loans receivable	$ 1,294,519	$ 1,012,504	Loans receivable	$ 1,182,374	$ 1,012,504
Loan Yield - CCBX (1)(2)	Loan Yield - CCBX (1)(2)	16.95 %	13.85 %	Loan Yield - CCBX (1)(2)	17.05 %	13.85 %

(1) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and originating & servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. Net BaaS loan income is a non-GAAP measure. See the reconciliation of non-GAAP measures set forth in the section titled *"GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures"* for the impact of BaaS loan expense on CCBX yield.

(2) Loan yield is annualized for the three months ended for each period presented and includes loans held for sale and nonaccrual loans.

Commercial and Industrial Loans. Commercial and industrial loans increased $41.2 million$18.6 million, or 13.2%6.0%, to $353.8 million$331.3 million as of June 30, 2023September 30, 2023, from $312.6 million as of December 31, 2022. The increase in commercial and industrial loans receivable over December 31, 2022 was due to a $49.9 million$51.9 million increase in other commercial and industrial loans partially offset by $1.1 million in forgiven and repaid PPP loans and a decrease of $7.6 million$31.9 million in capital call lines. Included in the commercial and industrial loan balance is $138.4 million$114.2 million and $146.0 million in capital call lines resulting from relationships with our CCBX partners as of June 30, 2023September 30, 2023 and December 31, 2022, respectively. As of June 30, 2023September 30, 2023, there were $60.3 million$58.9 million in CCBX other commercial loans, compared to $14.9 million at December 31, 2022.

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Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. These loans are primarily made based on the borrower's ability to service the debt from income. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable, inventory or equipment, and we generally obtain personal guarantees on these loans. Commercial and industrial loans includes $48.6 million and $45.1 million in loans to financial institutions as of June 30, 2023September 30, 2023 and December 31, 2022, respectively.

Also included in commercial and industrial loans is $3.6 million$3.3 million and $4.7 million in PPP loans as of June 30, 2023September 30, 2023, and December 31, 2022, respectively. The impact of PPP loans on the Company's financial statements has significantly lessened as nearly all of the PPP loans have been paid off and/or forgiven.

Construction, Land and Land Development Loans. Construction, land and land development loans decreased $27.3 million$46.4 million, or 12.8%21.7%, to $186.7 million$167.7 million as of June 30, 2023September 30, 2023, from $214.1 million as of December 31, 2022. The decrease is attributed to the completion of a few construction and development projects.

Unfunded loan commitments for construction, land and land development loans were $159.1 million$133.7 million at June 30, 2023September 30, 2023, compared to $142.5 million at December 31, 2022. Although we have seen a strong commercial and residential real estate market in the Puget Sound region thus far in 2023, the economic environment is continuously changing with the bank failures earlier this year, inflation, higher interest rates, global unrest, the war in Ukraine and Middle East, political uncertainty, including a potential shutdown of the U.S. government, and trade issues that have resulted in some economic uncertainty and slowing in construction lending.

Construction, land and land development loans are comprised of loans to fund construction, land acquisition and land development construction. The properties securing these loans are primarily located in the Puget Sound region and are comprised of both residential and commercial properties, including owner occupied properties and investor properties. As of June 30, 2023September 30, 2023, construction, land and land development loans included $78.1 million$91.4 million in commercial construction loans, $42.5 million$8.3 million in undeveloped land loans, $35.0 million$34.0 million in residential construction loans and $31.1 million$34.0 million in other construction, land and land development loans, compared to $100.7 million in commercial construction loans, $44.6 million in undeveloped land loans, $32.9 million in residential construction loans and $35.9 million in other construction, land and land development loans as of December 31, 2022.

Residential Real Estate Loans. Our one-to-four family residential real estate loans increased $14.0 million$28.0 million, or 3.1%6.2%, to $463.2 million$477.1 million as of June 30, 2023September 30, 2023, from $449.2 million as of December 31, 2022 due to an increase of $7.4 million$20.8 million in community bank loans combined with an increase of $6.6 million$7.2 million in CCBX loans.

As of June 30, 2023September 30, 2023, there were $251.2 million$251.8 million in CCBX home equity loans included in residential real estate, compared to $244.6 million at December 31, 2022, as a result of increased activity. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card.

WeIn the past, we have purchased residential mortgages originated through other financial institutions to hold for investment with the intent to diversifyfor purposes of diversifying our residential mortgage loan portfolio, meetmeeting certain regulatory requirements and increaseincreasing our interest income. We last purchased residential mortgage loans in 2018. As of June 30, 2023September 30, 2023 and December 31, 2022, we held $9.3 million$9.0 million and $9.4 million, respectively, in purchased residential real estate mortgage loans. These loans purchased typically have a fixed rate with a term of 15 to 30 years and are collateralized by one-to-four family residential real estate. We have a defined set of credit guidelines that we use when evaluating these loans. Although purchased loans were originated and underwritten by another institution, our mortgage, credit, and compliance departments conduct an independent review of each underlying loan that includes re-underwriting each of these loans to our credit and compliance standards.

Like our commercial real estate loans, our residential real estate loans are secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of property pledged as collateral on loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

Commercial Real Estate Loans. Commercial real estate loans increased $115.3 million$189.1 million, or 11.0%18.0%, to $1.16 billion$1.24 billion as of June 30, 2023September 30, 2023, from $1.05 billion as of December 31, 2022.

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These increases, which occurred across the various segments of our portfolio, were due to our commitment to grow the portfolio in the Puget Sound region. We actively seek commercial real estate loans in our markets and our lenders are experienced in competing for these loans and managing these relationships.

We make commercial mortgage loans collateralized by owner-occupied and non-owner-occupied real estate, as well as multi-family residential loans. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as manufacturing and processing facilities, business parks, warehouses, retail centers, convenience stores, hotels and motels, low rise office buildings, mixed-use residential and commercial, and other properties. We originate both fixed- and adjustable-rate loans with terms up to 20 years. Fixed-rate loans typically amortize over a 10 to 25 year period with balloon payments due at the end of five to ten years. Adjustable-rate loans are generally based on the prime rate and adjust with the prime rate or are based on term equivalent FHLB rates. At June 30, 2023 September 30, 2023, approximately 33.2% 32.6% of the commercial real estate loan portfolio consisted of fixed rate loans. Commercial real estate loans represented 38.6% 41.6% of our loan portfolio at June 30, 2023 September 30, 2023 and are historically our largest source of revenue. As of June 30, 2023 September 30, 2023, we held $42.1 million $43.1 million in purchased commercial real estate loans, compared to $42.4 million at December 31, 2022. Our credit administration team has substantial experience in underwriting, managing, monitoring and working out commercial real estate loans, and remains diligent in communicating and proactively working with borrowers to help mitigate potential credit deterioration.

Consumer and Other. Consumer and other loans increased $237.7 million $151.7 million, or 39.0% 24.9%, to $846.5 million $760.5 million, from $608.8 million as of December 31, 2022, as a result of growth in CCBX loans originated through our partners. We sold $320.9 million in CCBX loans during the quarter ended September 30, 2023. We intentionally reduced the CCBX other consumer and other loans portfolio in an effort to optimize and strengthen our balance sheet and expect that additional loans will be sold in the coming months as we continue working to optimize our balance sheet. We will continue growing our CCBX portfolio with loans that we believe are lower risk and more aligned with our long term portfolio and profitability objectives.

CCBX consumer loans totaled $845.0 million $758.0 million as of June 30, 2023 September 30, 2023, compared to $607.0 million at December 31, 2022. CCBX consumer loans include installment loans, credit cards, lines of credit and other loans. Our community bank consumer and other loans totaled $1.5 million $2.5 million as of June 30, 2023 September 30, 2023, compared to $1.7 million at December 31, 2022 and are comprised of personal lines of credit, automobile, boat, and recreational vehicle loans, and secured term loans.

Industry Exposure and Categories of Loans

We have a diversified loan portfolio, representing a wide variety of industries. Our major categories of loans are commercial real estate, consumer and other loans, residential real estate, commercial and industrial, and construction, land and land development loans. Together they represent $3.01 billion $2.97 billion in outstanding loan balances. When combined with $2.34 billion $2.35 billion in unused commitments the total of these categories is $5.36 billion $5.33 billion. However, total exposure on CCBX loans is subject to portfolio and partner maximum limits. See "Material Cash Requirements and Capital Resources" for maximum limits on CCBX loans by category.

The following table summarizes our community bank loan commitments by industry for our commercial real estate portfolio as of June 30, 2023 September 30, 2023:

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(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
Community bank commercial real estate loans														
Apartments	Apartments	$ 305,459	$ 11,819	$ 317,278	5.9 %	$3,117	98	Apartments	$ 333,685	$ 10,653	$ 344,338	6.5 %	$3,178	105
Hotel/Motel	Hotel/Motel	164,098	2,577	166,675	3.1	6,311	26	Hotel/Motel	164,501	1,328	165,829	3.1	6,327	26
Convenience Store	Convenience Store	107,568	2,585	110,153	2.1	1,992	54	Convenience Store	118,821	1,286	120,107	2.2	2,085	57
Mixed use	Mixed use	89,926	2,752	92,678	1.7	1,046	86	Mixed use	90,423	2,666	93,089	1.7	1,064	85
Warehouse	Warehouse	89,222	2,122	91,344	1.7	1,652	54	Warehouse	108,568	2,203	110,771	2.1	1,939	56
Office	Office	87,322	3,194	90,516	1.7	939	93	Office	85,214	3,469	88,683	1.7	926	92
Retail	Retail	88,307	675	88,982	1.7	920	96	Retail	96,287	675	96,962	1.8	953	101
Mini Storage	Mini Storage	55,774	1,792	57,566	1.1	2,935	19	Mini Storage	60,387	2,942	63,329	1.2	3,019	20
Strip Mall	Strip Mall	45,729	—	45,729	0.9	5,716	8	Strip Mall	45,657	—	45,657	0.9	5,707	8
Manufacturing	Manufacturing	37,297	1,800	39,097	0.7	1,130	33	Manufacturing	38,038	1,800	39,838	0.7	1,153	33
Groups < 0.70% of total	Groups < 0.70% of total	93,386	4,923	98,309	1.8	1,139	82	Groups < 0.70% of total	96,268	4,772	101,040	1.9	1,174	82
Total	Total	$1,164,088	$ 34,239	$1,198,327	22.4 %	$1,794	649	Total	$1,237,849	$ 31,794	$1,269,643	23.8 %	$1,861	665

As illustrated in the table below, our CCBX partners originate a large number of mostly smaller dollar loans, resulting in an average consumer loan balance of just $1,500. $1,400.

The following table summarizes our loan commitments by category for our consumer and other loan portfolio as of June 30, 2023 September 30, 2023:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment (1)	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment (1)	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
CCBX consumer loans														
Credit cards	Credit cards	$ 379,642	$ 990,447	$1,370,089	25.6 %	$ 1.5	248,853	Credit cards	$ 440,993	$1,000,320	$1,441,313	27.1 %	$ 1.6	279,714
Installment loans	Installment loans	459,391	—	459,391	8.6	1.7	269,592	Installment loans	310,719	—	310,719	5.8	1.5	213,011
Lines of credit	Lines of credit	3,704	296	4,000	0.1	0.1	25,826	Lines of credit	3,934	1,689	5,623	0.1	0.1	39,614
Other loans	Other loans	2,265	—	2,265	0.0	0.1	17,261	Other loans	2,334	—	2,334	0.1	0.1	17,577
Community bank consumer loans														
Installment loans	Installment loans	1,254	—	1,254	0.0	52.3	24	Installment loans	1,232	—	1,232	0.0	51.3	24
Lines of credit	Lines of credit	149	585	734	0.0	3.5	43	Lines of credit	150	573	723	0.0	3.7	41
Other loans	Other loans	54	—	54	0.0	0.2	315	Other loans	1,101	—	1,101	0.0	3.6	309
Total	Total	$ 846,459	$ 991,328	$1,837,787	34.3 %	$ 1.5	561,914	Total	$ 760,463	$1,002,582	$1,763,045	33.1 %	$ 1.4	550,290

(1) Total exposure on CCBX capital call lines loans is subject to a portfolio maximum limit of $350.0 million. limits. See *"Material Cash Requirements and Capital Resources"* for maximum limits on CCBX loans by category.

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The following table summarizes our loan commitments by category for our residential real estate portfolio as of June 30, 2023 September 30, 2023:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Exposure (1)	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Exposure (1)	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
CCBX residential real estate loans														
Home equity line of credit	Home equity line of credit	$ 251,213	$ 413,473	$ 664,686	12.4 %	$ 23	10,976	Home equity line of credit	$ 251,775	$ 429,893	$ 681,668	12.8 %	$ 24	10,384
Community bank residential real estate loans														
Closed end, secured by first liens	Closed end, secured by first liens	181,507	3,597	185,104	3.4	603	301	Closed end, secured by first liens	194,696	3,740	198,436	3.7	620	314
Home equity line of credit	Home equity line of credit	21,803	41,764	63,567	1.2	98	222	Home equity line of credit	21,342	41,943	63,285	1.2	100	214
Closed end, second liens	Closed end, second liens	8,656	1,170	9,826	0.2	321	27	Closed end, second liens	9,334	1,667	11,001	0.2	301	31
Total	Total	$ 463,179	$ 460,004	$ 923,183	17.2 %	$ 40	11,526	Total	$ 477,147	$ 477,243	$ 954,390	17.9 %	$ 44	10,943

(1) Total exposure on CCBX loans is subject to portfolio maximum limits. See *"Material Cash Requirements and Capital Resources"* for maximum limits on CCBX loans by category.

The following table summarizes our loan commitments by industry for our commercial and industrial loan portfolio as of June 30, 2023 September 30, 2023:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment (1)	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Tota Outstan Balanc Availa Commit (1)
Capital Call Lines	Capital Call Lines	$ 138,428	$ 622,319	$ 760,747	14.2 %	$ 876	158	Capital Call Lines	$ 114,174	$ 630,668	$ 744,
Retail	Retail	60,344	6,362	66,706	1.2	22	2,718	Retail	58,586	6,131	64,
Construction/Contractor Services	Construction/Contractor Services	24,067	27,329	51,396	1.0	131	184	Construction/Contractor Services	24,988	25,743	50,
Financial Institutions	Financial Institutions	48,648	—	48,648	0.9	4,054	12	Financial Institutions	48,648	—	48,
Medical / Dental / Other Care	Medical / Dental / Other Care	19,046	8,610	27,656	0.5	705	27	Medical / Dental / Other Care	19,249	8,045	27,
Manufacturing	Manufacturing	9,286	3,905	13,191	0.3	202	46	Manufacturing	8,479	5,093	13,
Groups < 0.30% of total	Groups < 0.30% of total	54,010	31,017	85,027	1.6	150	359	Groups < 0.30% of total	57,151	30,776	87,
Total	Total	$ 353,829	$ 699,542	$ 1,053,371	19.7 %	$ 101	3,504	Total	$ 331,275	$ 706,456	$ 1,037,

(1) Total exposure on CCBX loans is subject to portfolio maximum limits. See *"Material Cash Requirements and Capital Resources"* for maximum limits on CCBX loans by category.

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The following table details our community bank loan commitments by category for our construction, land and land development loan portfolio as of June 30, 2023 September 30, 2023:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans	(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Numbe of Loans
Community bank construction, land and land development loans														
Commercial construction	Commercial construction	$ 78,079	$ 127,352	$ 205,431	3.8 %	$ 4,109	19	Commercial construction	$ 91,396	$ 106,144	$ 197,540	3.7 %	$ 5,376	1
Undeveloped land loans	Undeveloped land loans	42,530	9,718	52,248	1.0	2,835	15	Undeveloped land loans	8,310	6,281	14,591	0.3	554	1
Residential construction	Residential construction	35,032	16,833	51,865	1.0	1,208	29	Residential construction	33,971	13,095	47,066	0.9	1,415	2
Developed land loans	Developed land loans	18,735	400	19,135	0.4	669	28	Developed land loans	21,369	3,732	25,101	0.5	763	2
Land development	Land development	12,330	4,774	17,104	0.3	822	15	Land development	12,640	4,443	17,083	0.3	843	1
Total	Total	$ 186,706	$ 159,077	$ 345,783	6.5 %	$ 1,761	106	Total	$ 167,686	$ 133,695	$ 301,381	5.7 %	$ 1,694	9

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by applicable regulations. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. Installment (closed end) consumer loans and revolving (open-ended loans, such as credit cards) originated through CCBX partners continue to accrue interest until they are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards). These consumer loans are reported out as nonperforming/substandard loans, 90+ days past due and still accruing. As a result of the type of loans (primarily consumer loans) originated through our CCBX partners, we anticipate that balances 90 days past due or more and still accruing will increase as those loans grow. We have, however, began a process of selling CCBX loans that we believe have a greater risk of credit deterioration and plan to grow the CCBX loan portfolio with loans that we believe have a lower risk of deterioration. When loans are placed on nonaccrual status, all unpaid accrued interest is reversed from income and all interest accruals are stopped. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal balance. Loans are returned to accrual status if we believe that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual status. We define nonperforming loans as loans on nonaccrual status and accruing loans 90 days or more past due. Nonperforming assets also include other real estate owned and repossessed assets.

We believe our lending practices and active approach to managing nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have procedures in place to assist us in maintaining the overall credit quality of our loan portfolio. We have established underwriting guidelines, concentration limits and we also monitor our delinquency levels for any negative or adverse trends. We actively manage problem assets to reduce our risk for loss.

We had $33.7 million $43.5 million in nonperforming assets as of June 30, 2023 September 30, 2023, compared to $33.2 million as of December 31, 2022. This includes $26.3 million $36.2 million in CCBX loans more than 90 days past due and still accruing interest as of June 30, 2023 September 30, 2023, compared to $26.1 million at December 31, 2022. All of our nonperforming assets were nonperforming loans as of June 30, 2023 September 30, 2023 and December 31, 2022. Our nonperforming loans to loans receivable ratio was 1.12% 1.47% at June 30, 2023 September 30, 2023, compared to 1.26% at December 31, 2022. The increase in nonperforming assets was due to a $233,000 $10.1 million increase in CCBX partner loans that are 90 days or more past due and still accruing interest. Additionally, community bank nonaccrual loans increased $319,000 $243,000 during the six nine months ended June 30, 2023 due September 30, 2023 to the addition $7.3 million and includes a multifamily loan for $6.9 million which is well secured.

Table of three loans partially offset by principal reductions. Contents,

Our community bank credit quality remains strong, as demonstrated by the low level of community bank charge-offs and nonperforming loan balance for the six nine months ended June 30, 2023 September 30, 2023. CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for credit losses. Agreements with our

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CCBX partners provide for a credit enhancement which protects the Bank by indemnifying or reimbursing incurred losses, when accruing consumer loans originated through CCBX partners are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards).

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

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	As of June 30, 2023	As of December 31, 2022	(dollars in thousands; unaudited)	As of September 30, 2023	As of December 31, 2022
Nonaccrual loans:	**Nonaccrual loans:**			**Nonaccrual loans:**		
Commercial and industrial loans	Commercial and industrial loans	$ 5	$ 113	Commercial and industrial loans	$ 2	$ 113
Real estate loans:	Real estate loans:			Real estate loans:		
Construction, land and land development	Construction, land and land development	66	66	Construction, land and land development	—	66
Residential real estate	Residential real estate	186	—	Residential real estate	176	—
Commercial real estate	Commercial real estate	7,142	6,901	Commercial real estate	7,145	6,901
Total nonaccrual loans	Total nonaccrual loans	7,399	7,080	Total nonaccrual loans	7,323	7,080
Accruing loans past due 90 days or more:	**Accruing loans past due 90 days or more:**			**Accruing loans past due 90 days or more:**		
Commercial & industrial loans	Commercial & industrial loans	808	404	Commercial & industrial loans	1,387	404
Real estate loans:	Real estate loans:			Real estate loans:		
Residential real estate loans	Residential real estate loans	1,722	876	Residential real estate loans	1,462	876
Consumer and other loans:	Consumer and other loans:			Consumer and other loans:		
Credit cards	Credit cards	18,306	10,570	Credit cards	24,807	10,570
Other consumer and other loans	Other consumer and other loans	5,492	14,245	Other consumer and other loans	8,561	14,245
Total accruing loans past due 90 days or more	Total accruing loans past due 90 days or more	26,328	26,095	Total accruing loans past due 90 days or more	36,217	26,095
Total nonperforming loans	Total nonperforming loans	33,727	33,175	Total nonperforming loans	43,540	33,175
Real estate owned	**Real estate owned**	—	—	**Real estate owned**	—	—
Repossessed assets	**Repossessed assets**	—	—	**Repossessed assets**	—	—

Modified loans for borrowers experiencing financial difficulty	**Modified loans for borrowers experiencing financial difficulty**	—	—	**Modified loans for borrowers experiencing financial difficulty**	—	—
Total nonperforming assets	Total nonperforming assets	$ 33,727	$ 33,175	Total nonperforming assets	$ 43,540	$ 33,175
Total nonaccrual loans to loans receivable	Total nonaccrual loans to loans receivable	0.25 %	0.27 %	to loans receivable	0.25 %	0.27 %
Total nonperforming loans to loans receivable	Total nonperforming loans to loans receivable	1.12 %	1.26 %	Total nonperforming loans to loans receivable	1.47 %	1.26 %
Total nonperforming assets to total assets	Total nonperforming assets to total assets	0.95 %	1.06 %	Total nonperforming assets to total assets	1.18 %	1.06 %

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The following tables detail nonperforming assets by segment which are included in the total nonperforming assets table above:

Community Bank	Community Bank	As of		Community Bank	As of	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	June 30, 2023	December 31, 2022	(dollars in thousands; unaudited)	September 30, 2023	December 31, 2022
Nonaccrual loans:	**Nonaccrual loans:**			**Nonaccrual loans:**		
Commercial and industrial loans	Commercial and industrial loans	$ 5	$ 113	Commercial and industrial loans	$ 2	$ 113
Real estate:	Real estate:			Real estate:		
Construction, land and land development	Construction, land and land development	66	66	Construction, land and land development	—	66
Residential real estate	Residential real estate	186	—	Residential real estate	176	—
Commercial real estate	Commercial real estate	7,142	6,901	Commercial real estate	7,145	6,901
Total nonaccrual loans	Total nonaccrual loans	7,399	7,080	Total nonaccrual loans	7,323	7,080
Accruing loans past due 90 days or more:	**Accruing loans past due 90 days or more:**			**Accruing loans past due 90 days or more:**		
Total accruing loans past due 90 days or more	Total accruing loans past due 90 days or more	—	—	Total accruing loans past due 90 days or more	—	—
Total nonperforming loans	Total nonperforming loans	7,399	7,080	Total nonperforming loans	7,323	7,080
Other real estate owned	**Other real estate owned**	—	—	**Other real estate owned**	—	—
Repossessed assets	**Repossessed assets**	—	—	**Repossessed assets**	—	—
Total nonperforming assets	Total nonperforming assets	$ 7,399	$ 7,080	Total nonperforming assets	$ 7,323	$ 7,080
Total nonperforming community bank loans to total loans receivable				Total nonperforming community bank loans to total loans receivable	0.25 %	0.27 %

CCBX	CCBX	As of		CCBX	As of	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	June 30, 2023	December 31, 2022	(dollars in thousands; unaudited)	September 30, 2023	December 31, 2022
Nonaccrual loans	**Nonaccrual loans**	$ —	$ —	**Nonaccrual loans**	$ —	$ —
Accruing loans past due 90 days or more:	**Accruing loans past due 90 days or more:**			**Accruing loans past due 90 days or more:**		
Commercial & industrial loans	Commercial & industrial loans	808	404	Commercial & industrial loans	1,387	404

Real estate loans:	Real estate loans:			Real estate loans:		
Residential real estate loans	Residential real estate loans	1,722	876	Residential real estate loans	1,462	876
Consumer and other loans:	Consumer and other loans:			Consumer and other loans:		
Credit cards	Credit cards	18,306	10,570	Credit cards	24,807	10,570
Other consumer and other loans	Other consumer and other loans	5,492	14,245	Other consumer and other loans	8,561	14,245
Total accruing loans past due 90 days or more	Total accruing loans past due 90 days or more	26,328	26,095	Total accruing loans past due 90 days or more	36,217	26,095
Total nonperforming loans	Total nonperforming loans	26,328	26,095	Total nonperforming loans	36,217	26,095
Other real estate owned	**Other real estate owned**	—	—	**Other real estate owned**	—	—
Repossessed assets	**Repossessed assets**	—	—	**Repossessed assets**	—	—
Total nonperforming assets	Total nonperforming assets	$ 26,328	$ 26,095	Total nonperforming assets	$ 36,217	$ 26,095
Total nonperforming CCBX loans to total loans receivable				Total nonperforming CCBX loans to total loans receivable	1.22 %	0.99 %

As of June 30, 2023 September 30, 2023, $25.2 million $34.7 million of the $26.3 million $36.2 million in nonperforming CCBX loans were covered by CCBX partner credit enhancements. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by indemnifying or reimbursing incurred losses. Under the agreement, the CCBX partner will indemnify or reimburse the Bank for its loss/charge-off on these loans.

Allowance for credit losses

The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the pool and whether it needs to evaluate the allowance on an individual basis. The Bank must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Bank cannot extend the contractual term of the loan for expected extensions, renewals, and modifications, unless the extension or renewal

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options are included in the contract at the reporting date and are not unconditionally cancellable by the Bank. Because expected credit losses are estimated over the contractual life adjusted for estimated prepayments, determination of the life

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of the loan may significantly affect the ACL. The Company has chosen to segment its portfolio consistent with the manner in which it manages the risk of the type of credit.

- Community Bank Portfolio: The ACL calculation is derived for loan segments utilizing loan level information and relevant information from internal and external sources related to past events and current conditions. In addition, the Company incorporates a reasonable and supportable forecast.

- CCBX Portfolio: The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the risk inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio.

Also included in the ACL are qualitative reserves to cover losses that are expected, but in the Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower's financial condition, credit rating and the volume and severity of past due loans and non-accrual loans. Based on this analysis, the Company records a provision for loan losses to maintain the allowance at appropriate levels.

As of June 30, 2023 September 30, 2023, the allowance for credit losses totaled $110.8 million $101.1 million, or 3.68% 3.41% of total loans. As of December 31, 2022, the allowance for loan losses totaled $74.0 million, or 2.82% of total loans. Effective January 1, 2023 the Company implemented the CECL allowance model which calculates reserves over the life of the loan and is largely driven by portfolio characteristics, economic outlook, and other key methodology assumptions versus the incurred loss model, which is what we were previously using. As a result of implementing CECL, there was a one-time adjustment to the 2023 opening allowance balance of $3.9 million. The day one CECL adjustment for community bank loans included a reduction of $310,000 to the community bank allowance driven by the reversal of the unallocated balance and a reduction of $340,000 related to the community bank unfunded commitment reserve also driven by the reversal of the unallocated balance. This was offset by an increase to the CCBX allowance for $4.2 million. With the mirror image approach accounting related to the contingent credit enhancement asset for CCBX partner loans, there was a CECL day one increase to the indemnification asset in the amount of $4.5 million. Net, the day one impact to retained earnings for the Bank's transition to CECL was an increase of $954,000, excluding the impact of income taxes.

The increase in the Company's allowance for credit losses for the quarter ended June 30, 2023 September 30, 2023 compared to December 31, 2022, is largely related to the provision for CCBX partner loans. During the six nine months ended June 30, 2023 September 30, 2023, a $95.8 million $122.3 million provision for credit losses - loans was recorded for CCBX partner loans based on management's analysis. The factors used in management's analysis for community bank credit losses indicated that a provision for credit losses - loans of $381,000 $1.0 million was needed for the six nine months ended June 30, 2023 September 30, 2023. The economic environment is continuously changing with the bank failures earlier this year, inflation, higher interest rates, global unrest, the war in Ukraine and Middle East, political uncertainty, including a potential shutdown of the U.S. government, and trade issues that have resulted in some economic uncertainty. As described above, CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for credit losses.

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Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by indemnifying and/or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's legal commitment to indemnify or reimburse losses. The credit enhancement asset is relieved as credit enhancement payments and recoveries are received from the CCBX partner or taken from the partner's cash reserve account. Partner BaaS fraud includes noncredit fraud losses on loans and deposits originated through partners. Agreements with our CCBX partners also provide protection to the Bank from fraud by indemnifying and/or reimbursing incurred fraud losses. Fraud losses are recorded when incurred as losses in noninterest expense, and the enhancement received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. CCBX partners also pledge a cash reserve account at the Bank which the Bank can collect from when losses occur. That account is then replenished by the partner on a regular interval. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill their contracted obligations to replenish their cash reserve account then the Bank would be exposed to additional losses, as a result of this counterparty risk. If a CCBX partner does not replenish their cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit enhancements. The Bank would write-off any remaining credit enhancement asset from the CCBX partner but would retain the full yield and any fee income on the loan portfolio going forward, and BaaS loan expense would decrease once default occurred and payments to the CCBX partner were stopped.

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The following table presents, as of and for the periods indicated, net charge-off information by segment:

		Three Months Ended							Three Months Ended					
		June 30, 2023			June 30, 2022				September 30, 2023			September 30, 2022		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	Gross charge-offs	$ 9	$ 32,290	$ 32,299	$ 3	$ 3,539	$ 3,542	Gross charge-offs	$ 3	$ 37,876	$ 37,879	$ 411	$ 8,102	$ 8,513
Gross recoveries	Gross recoveries	—	(1,340)	(1,340)	(36)	—	(36)	Gross recoveries	(3)	(1,042)	(1,045)	(3)	(6)	(9)
Net charge-offs	Net charge-offs	$ 9	$ 30,950	$ 30,959	$ (33)	$ 3,539	$ 3,506	Net charge-offs	$ —	$ 36,834	$ 36,834	$ 408	$ 8,096	$ 8,504
Net charge-offs to average loans (1)	Net charge-offs to average loans (1)	— %	9.78 %	4.19 %	(0.01) %	2.05 %	0.64 %	Net charge-offs to average loans (1)	0.00 %	11.16 %	4.77 %	0.10 %	3.59 %	1.38 %

(1) Annualized calculations shown for periods presented.

		Six Months Ended							Nine Months Ended					
		June 30, 2023			June 30, 2022				September 30, 2023			September 30, 2022		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total

Gross charge-offs	Gross charge-offs	$ 59	$ 66,407	$ 66,466	$ 7	$ 6,343	$ 6,350	Gross charge-offs	$ 62	$ 104,283	$ 104,345	$ 418	$ 14,445	$ 14,863
Gross recoveries	Gross recoveries	(5)	(3,200)	(3,205)	(40)	—	(40)	Gross recoveries	(8)	(4,242)	(4,250)	(43)	(6)	(49)
Net charge-offs	Net charge-offs	$ 54	$ 63,207	$ 63,261	$ (33)	$ 6,343	$ 6,310	Net charge-offs	$ 54	$ 100,041	$ 100,095	$ 375	$ 14,439	$ 14,814
Net charge-offs to average loans (1)	Net charge-offs to average loans (1)	0.01 %	10.92 %	4.50 %	0.00 %	2.38 %	0.64 %	Net charge-offs to average loans (1)	0.00 %	11.01 %	4.59 %	0.03 %	2.94 %	0.93 %

(1) Annualized calculations shown for periods presented.

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The following table presents, as of and for the periods indicated, an analysis of the allowance for credit losses and other related data:

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
(dollars in thousands; unaudited)	2023	2022	2023	2022
Allowance at beginning of period	$ 89,123	$ 38,770	$ 74,029	$ 28,632
Impact of adopting CECL (ASC 326)	—	—	3,852	—
Provision for credit losses	52,598	14,094	96,142	27,036
Charge-offs:				
Commercial and industrial loans	411	33	1,187	38
Residential real estate	945	—	1,682	—
Consumer and other	30,943	3,509	63,597	6,312
Total charge-offs	32,299	3,542	66,466	6,350
Recoveries:				
Commercial and industrial loans	—	35	3	37
Consumer and other	1,340	1	3,202	3
Total recoveries	1,340	36	3,205	40
Net charge-offs	30,959	3,506	63,261	6,310
Allowance at end of period	$ 110,762	$ 49,358	$ 110,762	$ 49,358
Allowance for credit losses to nonaccrual loans	1496.99 %	21367.10 %	1496.99 %	21367.10 %
Allowance to nonperforming loans	328.41 %	849.39 %	328.41 %	849.39 %
Allowance to loans receivable	3.68 %	2.11 %	3.68 %	2.11 %

(1) Annualized calculations shown for periods presented.

	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
(dollars in thousands; unaudited)	2023	2022	2023	2022
Allowance at beginning of period	$ 110,762	$ 49,358	$ 74,029	$ 28,632
Impact of adopting CECL (ASC 326)	—	—	3,852	—
Provision for credit losses	27,157	18,428	123,299	45,464
Charge-offs:				
Commercial and industrial loans	2,328	360	3,515	398
Residential real estate	1,476	105	3,158	105
Consumer and other	34,075	8,048	97,672	14,360
Total charge-offs	37,879	8,513	104,345	14,863
Recoveries:				
Commercial and industrial loans	1	2	4	39
Residential real estate	2	—	2	—

Consumer and other	1,042	7	4,244	10
Total recoveries	1,045	9	4,250	49
Net charge-offs	36,834	8,504	100,095	14,814
Allowance at end of period	$ 101,085	$ 59,282	$ 101,085	$ 59,282
Allowance for credit losses to nonaccrual loans	1380.38 %	839.57 %	1380.38 %	839.57 %
Allowance to nonperforming loans	232.17 %	259.08 %	232.17 %	259.08 %
Allowance to loans receivable	3.41 %	2.36 %	3.41 %	2.36 %

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The allowance for credit losses to nonaccrual loans ratio decreased increased as of June 30, 2023 September 30, 2023, compared to June 30, 2022 September 30, 2022 as a result of an increase of $7.2 million $262,000 in nonaccrual community bank loans, combined with an increase of $61.4 million $41.8 million in the allowance for credit losses. The increase in the allowance for credit losses for the three and six June 30, 2023 nine months ended September 30, 2023 compared to the three and six June 30, 2022 nine months ended September 30, 2022, is largely related to the increase in the allowance for loans originated through our CCBX partners. CCBX partner agreements provide for, and the Company has collected in full, credit enhancements that cover the $31.0 million $36.8 million and $63.2 million $100.0 million in net charge-offs on CCBX loans for the three and six nine months ended June 30, 2023 September 30, 2023. At June 30, 2023 September 30, 2023, the allowance for credit losses for CCBX partner loans totaled $90.1 million $79.8 million, compared to $28.6 million $39.1 million at June 30, 2022 September 30, 2022.

The following table presents the loans receivable and allowance for credit losses by segment for the periods indicated:

		As of June 30, 2023			As of December 31, 2022				As of September 30, 2023			As of December 31, 2		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total	(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	
Loans receivable	Loans receivable	$1,713,034	$1,294,519	$3,007,553	$1,614,752	$1,012,504	$2,627,256	Loans receivable	$1,784,661	$1,182,374	$2,967,035	$1,614,752	$1,012,504	$
Allowance for credit losses	Allowance for credit losses	(20,653)	(90,109)	(110,762)	(20,636)	(53,393)	(74,029)	Allowance for credit losses	(21,316)	(79,769)	(101,085)	(20,636)	(53,393)	
Allowance for credit losses to total loans receivable	Allowance for credit losses to total loans receivable	1.21 %	6.96 %	3.68 %	1.28 %	5.27 %	2.82 %	Allowance for credit losses to total loans receivable	1.19 %	6.75 %	3.41 %	1.28 %	5.27 %	

Although we believe that we have established our allowance for credit losses in accordance with GAAP and that the allowance for credit losses was adequate to provide for expected losses in the portfolio at all times shown above, future provisions for credit losses will be subject to ongoing evaluations of the risks in our loan portfolio. We continue to have not seen an increase in community bank credit losses due to COVID-19 as originally anticipated, as evidenced by the a low level of charge-offs and nonperforming community bank loans, however, the economic environment is continuously changing with the bank failures earlier this year, inflation, higher interest rates, global unrest, the war in Ukraine and Middle East, political uncertainty, including a potential shutdown of the U.S. government, and trade issues that have resulted in some economic uncertainty. If economic conditions worsen then Washington state and Puget Sound region may

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experience a more severe economic downturn, and our asset quality could deteriorate, which may require material additional provisions for credit losses.

Securities

We use our securities portfolio primarily as a source of liquidity and collateral that can be readily sold or pledged for public deposits or other business purposes. At June 30, 2023 September 30, 2023, 88.6% 70.0% of our investment portfolio consisted of U.S. Treasury securities. The remainder of our securities portfolio was invested in municipal bonds, U.S. Agency collateralized mortgage obligations and U.S. Agency residential mortgage-backed securities. Because we target a loan-to-deposit ratio in the range of 90% to 100%, we prioritize liquidity over the earnings of our securities portfolio. At June 30, 2023 September 30, 2023, our loan-to-deposit ratio was 96.2% 90.2% due to our significant strong growth in both loans and deposits. Our securities portfolio represented less than 5% of assets. To the extent our securities represent more than 5% of assets, absent an immediate need for liquidity, we anticipate investing may invest excess funds to provide a higher return.

As of June 30, 2023 September 30, 2023, the amortized cost of our investment securities totaled $112.8 million $142.8 million, an increase of $11.5 million $41.5 million, or 11.4% 41.0%, compared to $101.3 million as of December 31, 2022. The increase in the securities portfolio was due to the purchase of three twelve securities for $11.6 million $41.6 million during the six nine months ended June 30, 2023 September 30, 2023. These securities were purchased for CRA purposes and placed in our held-to-maturity portfolio. The existing securities in our held-to-maturity portfolio were previously purchased for and are being held for CRA purposes.

Our investment portfolio consists of securities classified as AFS and, to a lesser amount, held-to-maturity. The carrying values of our investment securities classified as AFS are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity. As of June 30, 2023 September 30, 2023, our AFS portfolio has an unrealized loss of $2.1 million $1.3 million, compared to an unrealized loss of $3.0 million as of December 31, 2022.

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The following table summarizes the amortized cost and estimated fair value of our investment securities as of the dates shown:

		As of June 30, 2023		As of December 31, 2022			As of September 30, 2023		As of December 31, 2022	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	(dollars in thousands; unaudited)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:	**Securities available-for-sale:**					**Securities available-for-sale:**				
U.S. Treasury securities	U.S. Treasury securities	$ 99,981	$ 97,871	$ 99,967	$ 97,015	U.S. Treasury securities	$ 99,988	$ 98,644	$ 99,967	$ 97,015
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations	50	47	54	51	U.S. Agency collateralized mortgage obligations	49	45	54	51
U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	—	—	1	1	U.S. Agency residential mortgage-backed securities	—	—	1	1
Municipal bonds	Municipal bonds	250	249	250	250	Municipal bonds	250	250	250	250
Total available-for-sale securities	Total available-for-sale securities	100,281	98,167	100,272	97,317	Total available-for-sale securities	100,287	98,939	100,272	97,317
Securities held-to-maturity:	**Securities held-to-maturity:**					**Securities held-to-maturity:**				
U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	12,563	12,159	1,036	916	U.S. Agency residential mortgage-backed securities	42,550	40,863	1,036	916
Total held-to-maturity securities	Total held-to-maturity securities	12,563	12,159	1,036	916	Total held-to-maturity securities	42,550	40,863	1,036	916
Total investment securities	Total investment securities	$ 112,844	$ 110,326	$ 101,308	$ 98,233	Total investment securities	$ 142,837	$ 139,802	$ 101,308	$ 98,233

We held a $2.2 million equity interest in a financial technology company as of June 30, 2023 September 30, 2023 and December 31, 2022, which consists of common stock and preferred shares.

Additionally, we held a $350,000 equity interest in a technology company of June 30, 2023 September 30, 2023 and December 31, 2022.

We invest in investment funds that are designed to help accelerate technology adoption at banks and have invested in three separate funds. These funds are carried at fair value as reported by the funds. During the six nine months ended June 30, 2023 September 30, 2023, we contributed $180,000 a net $13,000 with investment funds designed to help accelerate technology adoption at banks, and recognized net gains of $194,000, $199,000, resulting in an equity interest of $830,000 $669,000 at June 30, 2023 September 30, 2023. The Company has committed up to $763,000 $713,000 in capital for these investment funds, however, the Company is not obligated to fund these commitments prior to a capital call.

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Other Assets

Deferred tax assets, net decreased $14.1 million to $4.4 million and other assets increased $9.8 million to $14.0 million as of September 30, 2023, compared to December 31, 2022. This is the result of a change in estimate related to taxable income. Previously, we included credit enhancement income as taxable income when it was recorded as a receivable. Since the receivable is only realized when a future credit loss occurs and is reversed when a loss does not occur, we revisited the tax treatment. In our re-examination we adjusted the practice to tax the activity at the time the related losses are recognized and the corresponding receivable is realized as income. As a result of this change in estimate, pre-paid taxes, which is included in other assets, is $9.8 million as of September 30, 2023 compared to $1.3 million as of December 31, 2022, and deferred tax assets, net is $4.4 million, as of September 30, 2023 compared to $18.5 million as of December 31, 2022.

Deposits

We offer a variety of deposit products that have a wide range of interest rates and terms, including demand, money market, savings, and time accounts as well as IntraFi network reciprocal sweep deposits. Sweep deposits enable us to provide an FDIC insured deposit option to customers that have balances in excess of the FDIC insurance limit. This service trades our customers' funds as certificates of deposit or interest bearing demand deposits in increments under the FDIC insured amount to other participating financial institutions and in exchange we receive time deposit or interest bearing demand investments from participating financial institutions in a reciprocal agreement. We rely primarily on competitive pricing policies, convenient locations, electronic delivery channels (internet and mobile), and personalized service to attract new deposits and retain existing deposits. Additionally, we offer deposit products through our CCBX segment. CCBX deposits are generally classified as interest bearing negotiable order of withdrawal ("NOW") and money market accounts. CCBX deposit products allow us to offer a broader range of partner specific products, which include products designed to reach specific under-served or under-banked populations served by our CCBX partners.

Total deposits as of June 30, 2023 September 30, 2023 were $3.16 billion $3.29 billion, an increase of $345.1 million $472.2 million, or 12.2% 16.8%, compared to $2.82 billion as of December 31, 2022. The increase in deposits was largely in core deposits, which increased $451.2 million $582.6 million to $3.14 billion $3.27 billion from $2.69 billion at December 31, 2022. We define core deposits as all deposits except time deposits and brokered deposits. The $451.2 million $582.6 million increase in core deposits is also was largely from growth in the CCBX segment, which accounted for $475.4 million of the increase, partially offset by a decrease of $24.1 million in community bank deposits. The slight decrease in community bank deposits was a result of pricing disciplines as some customer sought higher rate products elsewhere. movement from noninterest to interest bearing accounts. Our cost of deposits for the community bank was 0.98% 1.31% for the three months ended June 30, 2023 September 30, 2023. BaaS-brokered deposits are now classified as NOW accounts due to a change in the relationship agreement with one of our partners; these deposits increased $173.6 million $167.7 million to $275.2 million $269.2 million as of June 30, 2023 September 30, 2023. These Additionally, during the quarter we started sweeping deposits increased for an additional CCBX partner as a result of sweeping them back on deposit growth, which increased the amount of CCBX deposits that were transferred off balance sheet. Additionally, sheet for increased FDIC insurance coverage to $51.9 million as of June 30, 2023 we have access to $9.9 million in CCBX customer deposits that are currently being transferred from the Bank's balance sheet to other financial institutions on a daily basis. The Bank could retain these deposits for liquidity and funding purposes if needed. If a portion of these deposits are retained, they would be classified as NOW accounts.

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September 30, 2023.

Included in total deposits is $1.65 billion $1.75 billion in CCBX deposits, an increase of $373.8 million $472.9 million, or 29.2% 37.0%, compared to $1.28 billion as of December 31, 2022. CCBX customer deposit relationships include deposits with CCBX end customers, operating and non-operating deposit accounts. The deposits from our CCBX segment are generally classified as interest bearing NOW and money market accounts.

Total noninterest bearing deposits as of June 30, 2023 September 30, 2023 were $725.6 million $651.8 million, a decrease of $49.4 million $123.2 million, or 6.4% 15.9%, compared to $775.0 million as of December 31, 2022. Noninterest bearing deposits represent 22.9% 19.8% and 27.5% of total deposits for June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Total interest bearing account balances, excluding time deposits, as of June 30, 2023 September 30, 2023 were $2.41 billion $2.62 billion, an increase of $399.1 million $604.2 million, or 19.8% 30.0%, compared to $2.01 billion as of December 31, 2022. The $399.1 million $604.2 million increase is the due in part to former BaaS-brokered deposits now being classified as NOW accounts in the first quarter of 2023 due to a change in the relationship agreement with one of our partners in the first quarter of 2023, combined with CCBX growth in interest bearing deposits and a community bank increase in interest bearing deposits of $49.0 million $118.3 million. Included in total deposits is $240.3 million $296.4 million in IntraFi network reciprocal NOW and money market sweep accounts as of June 30, 2023 September 30, 2023, which provides our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions.

Total time deposit balances as of June 30, 2023 September 30, 2023 were $24.8 million $20.6 million, a decrease of $4.6 million $8.8 million, or 15.7% 30.0%, from $29.4 million as of December 31, 2022. The decrease is due to the strong increase in core deposits, and our focus on core deposits and letting higher rate deposits run off as they mature. We have seen competitors increase rates on time deposits, and we have not globally matched their rates in response as we focus on growing and retaining less costly core deposits.

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The following table sets forth deposit balances at the dates indicated:

		As of June 30, 2023		As of December 31, 2022			As of September 30, 2023		As of December 31, 2022	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits	(dollars in thousands; unaudited)	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
Demand, noninterest bearing	Demand, noninterest bearing	$ 725,592	22.9 %	$ 775,012	27.5 %	Demand, noninterest bearing	$ 651,786	19.8 %	$ 775,012	27.5 %

NOW and money market	NOW and money market	2,323,164	73.5	1,804,399	64.0	NOW and money market	2,532,668	77.0	1,804,399	64.0
Savings	Savings	88,991	2.8	107,117	3.8	Savings	84,628	2.6	107,117	3.8
Total core deposits	Total core deposits	3,137,747	99.2	2,686,528	95.3	Total core deposits	3,269,082	99.4	2,686,528	95.3
Brokered deposits	Brokered deposits	1	—	101,546	3.6	Brokered deposits	1	—	101,546	3.6
Time deposits less than $100,000	Time deposits less than $100,000	9,741	0.3	12,596	0.5	Time deposits less than $100,000	8,635	0.2	12,596	0.5
Time deposits $100,000 and over	Time deposits $100,000 and over	15,083	0.5	16,851	0.6	Time deposits $100,000 and over	11,982	0.4	16,851	0.6
Total	Total	$ 3,162,572	100.0 %	$ 2,817,521	100.0 %	Total	$ 3,289,700	100.0 %	$ 2,817,521	100.0 %
Cost of deposits (1)	Cost of deposits (1)	2.72 %		1.56 %		Cost of deposits (1)	3.14 %		1.56 %	

(1) Cost of deposits is annualized for the three months ended for each period presented.

The following tables detail the deposits for the segments which are included in the total deposit portfolio table above:

Community Bank	As of			
	September 30, 2023		December 31, 2022	
(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total
Demand, noninterest bearing	$ 584,004	38.0 %	$ 694,179	45.2 %
NOW and money market	852,747	55.5	709,490	46.1
Savings	80,099	5.2	105,101	6.8
Total core deposits	1,516,850	98.7	1,508,770	98.1
Brokered deposits	1	0.0	1	0.0
Time deposits less than $100,000	8,635	0.5	12,596	0.8
Time deposits $100,000 and over	11,982	0.8	16,851	1.1
Total Community Bank deposits	$ 1,537,468	100.0 %	$ 1,538,218	100.0 %
Cost of deposits(1)	1.31 %		0.37 %	

(1) Cost of deposits is annualized for the three months ended for each period presented.

CCBX	As of			
	September 30, 2023		December 31, 2022	
(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total
Demand, noninterest bearing	$ 67,782	3.9 %	$ 80,833	6.3 %
NOW and money market	1,679,921	95.9	1,094,909	85.6
Savings	4,529	0.2	2,016	0.2
Total core deposits	1,752,232	100.0	1,177,758	92.1
BaaS-brokered deposits	—	—	101,545	7.9
Total CCBX deposits	$ 1,752,232	100.0 %	$ 1,279,303	100.0 %
Cost of deposits (1)	4.80 %		3.13 %	

(1) Cost of deposits is annualized for the three months ended for each period presented.

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The following tables detail the deposits for the segments which are included in the total deposit portfolio table above:

Community Bank	As of			
	June 30, 2023		December 31, 2022	
(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total
Demand, noninterest bearing	$ 621,012	41.1 %	$ 694,179	45.2 %
NOW and money market	778,475	51.6	709,490	46.1
Savings	85,146	5.7	105,101	6.8
Total core deposits	1,484,633	98.4	1,508,770	98.1
Brokered deposits	1	0.0	1	0.0
Time deposits less than $100,000	9,741	0.6	12,596	0.8
Time deposits $100,000 and over	15,083	1.0	16,851	1.1
Total Community Bank deposits	$ 1,509,458	100.0 %	$ 1,538,218	100.0 %
Cost of deposits (1)	0.98 %		0.37 %	

(1) Cost of deposits is annualized for the three months ended for each period presented.

CCBX	As of			
	June 30, 2023		December 31, 2022	
(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total
Demand, noninterest bearing	$ 104,580	6.3 %	$ 80,833	6.3 %
NOW and money market	1,544,689	93.5	1,094,909	85.6
Savings	3,845	0.2	2,016	0.2
Total core deposits	1,653,114	100.0	1,177,758	92.1
BaaS-brokered deposits	—	—	101,545	7.9
Total CCBX deposits	$ 1,653,114	100.0 %	$ 1,279,303	100.0 %
Cost of deposits (1)	4.42 %		3.13 %	

(1) Cost of deposits is annualized for the three months ended for each period presented.

The following table sets forth the Company's time deposits of $100,000 or more by time remaining until maturity as of the dates indicated:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	As of June 30, 2023	As of December 31, 2022	(dollars in thousands; unaudited)	As of September 30, 2023	As of December 31, 2022
Maturity Period:	**Maturity Period:**			**Maturity Period:**		
Three months or less	Three months or less	$ 3,798	$ 4,067	Three months or less	$ 4,306	$ 4,067
Over three through six months	Over three through six months	3,619	2,957	Over three through six months	3,630	2,957
Over six through twelve months	Over six through twelve months	5,374	5,892	Over six through twelve months	2,048	5,892
Over twelve months	Over twelve months	2,292	3,935	Over twelve months	1,998	3,935
Total	Total	$ 15,083	$ 16,851	Total	$ 11,982	$ 16,851
Weighted average maturity (in years)	Weighted average maturity (in years)	0.80	0.76	Weighted average maturity (in years)	0.77	0.76

Average deposits for the three months ended June 30, 2023 September 30, 2023 were $3.04 billion $3.21 billion, an increase of 15.7% 16.4% compared to $2.63 billion $2.76 billion for the three months ended June 30, 2022 September 30, 2022. The increase in average deposits was primarily due to an increase in core deposits, primarily in interest rate bearing deposits. We expect deposits to increase with continued growth in our primary market areas, the increase in commercial lending relationships for which we also seek deposit balances and the results of business development efforts by branch managers, treasury service personnel and lenders.

The average rate paid on total deposits was 2.72% 3.14% for the three months ended June 30, 2023 September 30, 2023, compared to 0.25% 0.82% for the three months ended June 30, 2022 September 30, 2022. The average rate paid on NOW and money market accounts increased 3.35% 2.95% for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022. The average rate paid on time

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deposits of less than $100,000 increased 0.09% 0.17% for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022. The average rate paid on time deposits greater than $100,000 increased 0.05% 0.16% for the three months ended June 30, 2023 September 30, 2023 compared to the three months ended June 30, 2022 September 30, 2022. The average rate paid on savings increased 0.21% 0.24% for the three months ended June 30, 2023 September 30, 2023 compared to the three months ended June 30, 2022. The average rate paid on BaaS brokered deposits decreased 0.50% for the three months ended June 30, 2023 compared to the three months ended June 30, 2022 September 30, 2022. The overall higher average rate paid on interest bearing accounts in the three months ended June 30, 2023 September 30, 2023 compared to the three months ended June 30, 2022 September 30, 2022 is due to the recent interest rate increases by the FOMC. Increased Fed Funds rates along with competition are expected While we continue working to continue to impact future hold down deposit costs, any additional FOMC interest rate increases will increase our cost of deposits and our pricing strategies. result in higher interest expense on interest bearing deposits.

The average rate paid on total deposits was 2.44% 2.69% for the six nine months ended June 30, 2023 September 30, 2023, compared to 0.18% 0.41% for the six nine months ended June 30, 2022 September 30, 2022. The average rate paid on NOW and money market accounts increased 3.14% 3.04% for the six nine months ended June 30, 2023 September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022. The average rate paid on time deposits of less than $100,000 decreased increased 0.03% for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022. The average rate paid on time deposits greater than $100,000 decreased 1.05% 0.68% for the six nine months ended June 30, 2023 September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022, due to the recognition of additional interest expense of $130,000 during the six nine months ended June 30, 2022 September 30, 2022 to correct interest on CDs from a previous period. The average rate paid on savings was 0.19% 0.22% for the six nine months ended June 30, 2023 September 30, 2023, compared to 0.03% 0.04% for the six nine months ended June 30, 2022. The average rate paid on BaaS brokered deposits increased 3.66% compared to the six months ended June 30, 2022 September 30, 2022. The overall higher average rate paid on interest bearing accounts in the six nine months ended June 30, 2023 September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022 is due to the recent interest rate increases by the FOMC.

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

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	For the Three Months Ended June 30, 2023 Average Balance	2023 Average Rate(1)	2022 Average Balance	2022 Average Rate(1)	For the Six Months Ended June 30, 2023 Average Balance	2023 Average Rate(1)	2022 Average Balance	2022 Average Rate(1)
Demand, noninterest bearing	Demand, noninterest bearing	$ 717,256	0.00 %	$ 839,562	0.00 %	$ 746,436	0.00 %	$1,078,525	0.00 %
NOW and money market	NOW and money market	2,206,791	3.74	1,579,970	0.39	2,020,946	3.44	1,250,353	0.30
Savings	Savings	93,818	0.24	104,356	0.03	98,828	0.19	104,283	0.03
BaaS-brokered deposits	BaaS-brokered deposits	1	0.00	68,876	0.50	52,367	4.08	68,848	0.42
Time deposits less than $100,000	Time deposits less than $100,000	10,517	0.34	14,462	0.25	11,174	0.27	14,652	0.30
Time deposits $100,000 and over	Time deposits $100,000 and over	15,575	0.36	24,455	0.31	15,853	0.31	25,739	1.36
Total deposits	Total deposits	$3,043,958	2.72 %	$2,631,681	0.25 %	$2,945,604	2.44 %	$2,542,400	0.18 %

(dollars in thousands; unaudited)	For the Three Months Ended September 30, 2023 Average Balance	2023 Average Rate(1)	2022 Average Balance	2022 Average Rate(1)	For the Nine Months Ended Se 2023 Average Balance	2023 Average Rate(1)	Averag Balanc
Demand, noninterest bearing	$ 698,532	0.00 %	$ 807,952	0.00 %	$ 730,292	0.00 %	$ 987,3
NOW and money market	2,406,709	4.18	1,734,937	1.23	2,150,947	3.72	1,413,6
Savings	84,775	0.29	108,097	0.05	94,092	0.22	105,5
BaaS-brokered deposits	1	0.00	74,687	1.67	34,720	4.08	70,8
Time deposits less than $100,000	9,260	0.43	13,625	0.26	10,529	0.32	14,3
Time deposits $100,000 and over	14,348	0.41	21,824	0.25	15,346	0.34	24,4
Total deposits	$3,213,625	3.14 %	$2,761,122	0.82 %	$3,035,926	2.69 %	$2,616,1

(1) Annualized calculations shown for periods presented.

The ratio of average noninterest bearing deposits to average total deposits for the three and six nine months ended June 30, 2023 September 30, 2023 was 23.6% 21.7% and 25.3% 24.1%, respectively, compared to 31.9% 29.3% and 42.4% 37.7%, respectively, for the three and six nine months ended June 30, 2022 September 30, 2022.

Uninsured Deposits

The FDIC insures our deposits up to $250,000 per depositor, per insured bank for each account ownership category. Deposits that exceed insurance limits are uninsured. At June 30, 2023 September 30, 2023, deposits totaled $3.16 billion $3.29 billion, of which total estimated uninsured deposits were $632.1 $599.0 million, or 20.0% 18.2% of total deposits, compared to $835.8 million, or 29.7% of total deposits as of December 31, 2022. At June 30, 2022 September 30, 2022, deposits totaled $2.70 billion $2.84 billion, of which total estimated uninsured deposits were $812.1 $867.7 million, or 30.1% 30.6% of total deposits. The Bank is using sweep deposits to provide our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions.

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Estimated uninsured time deposits totaled $2.6 $1.9 million as of June 30, 2023 September 30, 2023. The table below shows the estimated uninsured time deposits, by account, for the maturity periods indicated:

(dollars in thousands; unaudited)		As of June 30, 2023 September 30, 2023
Maturity Period:		
Three months or less	$	947 248
Over three through six months		257 1,235
Over six through twelve months		1,287 51
Over twelve months		146 404
Total	$	2,637 1,938

Borrowings

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

Federal Reserve Bank Line of Credit. The Federal Reserve allows us to borrow against our line of credit through a borrower in custody agreement utilizing the discount window, which is collateralized by certain loans. As of June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, total borrowing capacity of $433.8 million $442.2 million and $28.9 million $28.2 million, respectively, was available under this arrangement. As of June 30, 2023 September 30, 2023 and 2022, Federal Reserve advances totaled zero. Additional loans were pledged during the first six nine months of 2023 to significantly increase the borrowing capacity of the Bank in the event of a liquidity crisis.

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Federal Home Loan Bank Advances. The FHLB allows us to borrow against our line of credit, which is collateralized by certain loans. As of June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, we had borrowing capacity of $126.0 135.7 million and $109.0 136.6 million, respectively, with the FHLB. As of June 30, 2023 September 30, 2023 and 2022, FHLB advances totaled zero.

The table below provides details on the FHLB advance borrowings for the periods indicated:

		As of and For the Three Months Ended June 30,		As of and For the Six Months Ended June 30,			As of and For the Three Months Ended September 30,		As of and For the Nine Months Ended September 30,	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2023	2022	2023	2022	(dollars in thousands; unaudited)	2023	2022	2023	2022
Maximum amount outstanding at any month-end during period:	Maximum amount outstanding at any month-end during period:	$ —	$ —	$ —	$ 24,999	Maximum amount outstanding at any month-end during period:	$ —	$ —	$ —	$ 24,999
Average outstanding balance during period:	Average outstanding balance during period:	$ —	$ —	$ —	$ 12,154	Average outstanding balance during period:	$ —	$ —	$ —	$ 8,058
Weighted average interest rate during period:	Weighted average interest rate during period:	0.00 %	0.00 %	0.00 %	1.13 %	Weighted average interest rate during period:	— %	— %	— %	1.13 %

Balance outstanding at end of period:	Balance outstanding at end of period:	$ —	$ —	$ —	$ —	Balance outstanding at end of period:	$ —	$ —	$ —	$ —
Weighted average interest rate at end of period:	Weighted average interest rate at end of period:	0.00 %	0.00 %	0.00%	0.00 %	Weighted average interest rate at end of period:	— %	— %	— %	— %

Junior Subordinated Debentures. In 2004, we issued $3.6 million in junior subordinated debentures to Coastal (WA) Statutory Trust I (the "Trust"), of which we own all of the outstanding common securities. The Trust used the proceeds from the issuance of its underlying common securities and preferred securities to purchase the debentures issued by the Company. These debentures are the Trust's only assets and the interest payments from the debentures finance the distributions paid on the preferred securities. The Prior to June 30, 2023, the debentures bear bore interest at a rate per annum equal to the 3-month LIBOR plus 2.10%. The effective rate as of June 30, 2023 and December 31, 2022 was 7.65% and 6.87%, respectively. Beginning with rate adjustments that occur after subsequent to June 30, 2023, the rate will be is based off three-month CME Term SOFR plus 0.26%. The effective rate as of September 30, 2023 and December 31, 2022 was 7.77% and 6.87%, respectively. We generally have the right to defer payment of interest on the debentures at any time or from time to time for a period not exceeding five years provided that no extension period may extend beyond the stated maturity of the debentures. During any such extension period, distributions on the Trust's preferred securities will also be deferred, and our ability to pay dividends on our common stock will be restricted. The Trust's preferred securities are mandatorily redeemable upon maturity of the debentures, or upon earlier redemption as provided in the indenture, subject to Federal Reserve approval. If the debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. We unconditionally guarantee payment of accrued and unpaid distributions required to be paid on the Trust securities subject to certain exceptions, the redemption price with respect to any Trust securities called for redemption and amounts due if the Trust is liquidated or terminated.

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Subordinated Debt. In August 2021, the Company issued a subordinated note in the amount of $25.0 million. The note matures on September 1, 2031, and bears interest at the rate of 3.375% per year for five years and, thereafter, reprices quarterly beginning September 1, 2026, at a rate equal to the three-month SOFR plus 2.76%. The five-year 3.375% interest period ends on September 1, 2026. We may redeem the subordinated note, in whole or in part, without premium or penalty, in principal redemption multiples of $1,000, after August 18, 2026, subject to any required regulatory approvals. Proceeds were used to repay $10.0 million in existing 5.65% interest subordinated debt on August 9, 2021 and $11.5 million was contributed to the Bank as capital during the quarter ended September 30, 2021.

In November 2022, the Company issued subordinated notes in the aggregate amount of $20.0 million. The notes mature on November 1, 2032, and bear interest at the rate of 7.00% per year for five years and, thereafter, reprices quarterly beginning November 1, 2027, at a rate equal to the three-month SOFR plus 2.9%. The five-year 7.00% interest period ends on November 1, 2027. We may redeem the subordinated notes, in whole or in part, without premium or penalty, in principal redemption multiples of $1,000, after November 1, 2027, subject to any required regulatory approvals.

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Liquidity and Capital Resources

Liquidity Management

Liquidity refers to our capacity to meet our cash obligations at a reasonable cost. Our cash obligations require us to have cash flow that is adequate to fund loan growth and maintain on-balance sheet liquidity while meeting present and future obligations of deposit withdrawals, borrowing maturities and other contractual cash obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints in accessing sources of funds and the ability to convert assets into cash. Changes in economic conditions or exposure to credit, market, and operational, legal and reputational risks also could affect the Bank's liquidity risk profile and are considered in the assessment of liquidity management. Deposits obtained through our CCBX segment are a significant source of liquidity for us. If a relationship with a large CCBX partner terminates, the exit of those deposits could have an adverse impact on liquidity. Partner program agreements govern the relationship and are valid for a given period of time. Prior to exiting, the partner would need to provide us adequate notice as stipulated in the agreement that they were not going to renew the program agreement and intend to move the deposits. The movement to an alternate BaaS provider is cumbersome and would be over a period of time, which would allow us the opportunity to put alternate liquidity in place; those options are more fully discussed below. As of June 30, 2023 September 30, 2023, we have 1 partner with deposits that are in excess of 10% of total deposits and represent 27% 28% of total deposits.

We continually monitor our liquidity position to ensure that our assets and liabilities are managed in a manner to meet all reasonably foreseeable short-term, long-term and strategic liquidity demands. Management has established a comprehensive process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems that are commensurate with the complexity of our business activities; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of readily available cash, deposits and highly liquid marketable securities free of legal, regulatory, or operational impediments, that can be used to meet liquidity needs in stressful situations; contingency funding policies and plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the Bank's liquidity risk management process. Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our liquidity requirements are met primarily through our deposits, FHLB advances and the principal and interest payments we receive on loans and investment securities. Cash on hand, cash at third-party banks, investments available-for-sale and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail, commercial, and BaaS deposits, advances from the FHLB and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from the Federal Reserve discount window, draws on established federal funds lines from unaffiliated commercial banks, funds from online

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rate services, brokered deposits, a one-way buy through an ICS account, and the issuance of debt or equity securities. Additionally, the Bank, as of June 30, 2023, has access to $9.9 million in CCBX customer deposits that are currently being transferred from the Bank's balance sheet to other financial institutions on a daily basis. The Bank could retain these deposits for liquidity and funding purposes if needed. We believe we have ample liquidity resources to fund future growth and meet other cash needs as necessary and are closely monitoring liquidity in this uncertain economic environment.

The Company is a corporation separate and apart from our Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service requirements on its subordinated note and junior subordinated debentures. The Company's main source of cash flow has been through equity and debt offerings. The Company has consistently retained a portion of the funds from equity and debt offerings so that is has sufficient funds for its operating and debt costs. During the six nine months ended June 30, 2023 September 30, 2023, the Company contributed $15.0 million to the Bank. The Company currently holds $6.8 million $6.5 million in cash for debt servicing and operating purposes. In addition, the Bank can declare and pay dividends to the Company to meet the Company's debt and operating expenses. There are statutory and regulatory limitations that affect the ability of the Bank to pay dividends to the Company. We believe that these limitations will not impact the ability of the Bank to pay dividends to the Company to meet ongoing operating needs.

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For contingency purposes, the Company maintains a minimum level of cash to fund one year's projected operating cash flow needs and targets a minimum liquidity ratio of 10%. Both of these minimum liquidity levels are on-balance sheet sources. Per policy and the Bank's liquidity contingency plan, in event of a liquidity emergency the Bank can utilize wholesale funds in an amount up to 30% of assets. Since the Bank uses only a small portion of its borrowing or wholesale funding capacity, the Bank has access to borrow funds if needed in a liquidity emergency.

Capital Adequacy

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital levels relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank level. Because the Company's consolidated assets exceeded $3.0 billion as of September 30, 2022, the Company is no longer eligible for the Federal Reserve's Small Bank Holding Company Policy Statement and will be evaluated relative to the capital adequacy standards established by the Federal Reserve. Additionally, as of June 30, 2023 September 30, 2023, the Company's consolidated assets are in excess of $3.0 billion, and as a consequence, beginning in March 2024, the Company will no longer prepare and file financial reports with the Federal Reserve as a small bank holding company.

As of June 30, 2023 September 30, 2023, and December 31, 2022, the Company and the Bank were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized" for purposes of the Federal Reserve's prompt corrective action regulations. As we deploy capital and continue to grow operations, regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control growth in order to remain in compliance with all regulatory capital standards applicable to us. In addition, the Company maintains an effective registration statement on Form S-3 with the Securities and Exchange Commission that would allow which allows the Company to raise additional capital in an amount up to $115.5 million. The Company raised $34.5 million in December 2021. The Company, through a private placement, raised $25.0 million in subordinated debt in 2021 and repaid $10.0 million of subordinated debt with the proceeds and used the remainder for general corporate purposes. On November 1, 2022 the Company, through a private placement, raised $20.0 million of subordinated debt with the proceeds to be used for general corporate purposes. The Company contributed $15.0 million of the capital raised to the Bank in March 2023.

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The following table presents the Company's and the Bank's regulatory capital ratios as of the dates presented, as well as the regulatory capital ratios that are required by Federal Reserve regulations to maintain "well-capitalized" status:

	Actual	Minimum Required for Capital Adequacy Purposes[1]	Required to be Well Capitalized Under the Prompt Corrective Action Provisions		Actual	Minimum Required for Capital Adequacy Purposes[1]	Required to be Well Capitalized Under the Prompt Corrective Action Provisions

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Amount	Ratio	Amount	Ratio	Amount	Ratio	(dollars in thousands; unaudited)	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2023														
September 30, 2023								**September 30, 2023**						
Tier 1 Leverage Capital (to average assets)	Tier 1 Leverage Capital (to average assets)							Tier 1 Leverage Capital (to average assets)						
Company	Company	$ 277,812	8.16 %	$ 136,230	4.00 %	N/A	N/A	Company	$ 289,014	8.03 %	$ 143,924	4.00 %	N/A	N/A
Bank Only	Bank Only	311,723	9.16 %	136,101	4.00 %	170,126	5.00 %	Bank Only	323,387	8.99 %	143,808	4.00 %	179,760	5.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)	Common Equity Tier 1 Capital (to risk-weighted assets)							Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	Company	274,312	8.36 %	147,575	4.50 %	N/A	N/A	Company	285,514	9.00 %	142,812	4.50 %	N/A	N/A
Bank Only	Bank Only	311,723	9.52 %	147,353	4.50 %	212,843	6.50 %	Bank Only	323,387	10.21 %	142,568	4.50 %	205,932	6.50 %
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)							Tier 1 Capital (to risk-weighted assets)						
Company	Company	277,812	8.47 %	196,767	6.00 %	N/A	N/A	Company	289,014	9.11 %	190,416	6.00 %	N/A	N/A
Bank Only	Bank Only	311,723	9.52 %	196,471	6.00 %	261,961	8.00 %	Bank Only	323,387	10.21 %	190,091	6.00 %	253,455	8.00 %
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)							Total Capital (to risk-weighted assets)						
Company	Company	364,672	11.12 %	262,356	8.00 %	N/A	N/A	Company	374,449	11.80 %	253,888	8.00 %	N/A	N/A
Bank Only	Bank Only	353,522	10.80 %	261,961	8.00 %	327,451	10.00 %	Bank Only	363,755	11.48 %	253,455	8.00 %	316,818	10.00 %
December 31, 2022	**December 31, 2022**							**December 31, 2022**						
Tier 1 Leverage Capital (to average assets)	Tier 1 Leverage Capital (to average assets)							Tier 1 Leverage Capital (to average assets)						
Company	Company	$ 249,250	7.97 %	$ 125,141	4.00 %	N/A	N/A	Company	$ 249,250	7.97 %	$ 125,141	4.00 %	N/A	N/A
Bank Only	Bank Only	267,699	8.56 %	125,025	4.00 %	156,281	5.00 %	Bank Only	267,699	8.56 %	125,025	4.00 %	156,281	5.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)	Common Equity Tier 1 Capital (to risk-weighted assets)							Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	Company	245,750	8.92 %	124,027	4.50 %	N/A	N/A	Company	245,750	8.92 %	124,027	4.50 %	N/A	N/A
Bank Only	Bank Only	267,699	9.73 %	123,822	4.50 %	178,854	6.50 %	Bank Only	267,699	9.73 %	123,822	4.50 %	178,854	6.50 %

Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)							Tier 1 Capital (to risk-weighted assets)						
Company	Company	249,250	9.04 %	165,370	6.00 %	N/A	N/A	Company	249,250	9.04 %	165,370	6.00 %	N/A	N/A
Bank Only	Bank Only	267,699	9.73 %	165,096	6.00 %	220,128	8.00 %	Bank Only	267,699	9.73 %	165,096	6.00 %	220,128	8.00 %
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)							Total Capital (to risk-weighted assets)						
Company	Company	329,203	11.94 %	220,493	8.00 %	N/A	N/A	Company	329,203	11.94 %	220,493	8.00 %	N/A	N/A
Bank Only	Bank Only	302,595	11.00 %	220,128	8.00 %	275,160	10.00 %	Bank Only	302,595	11.00 %	220,128	8.00 %	275,160	10.00 %

(1) Presents the minimum capital adequacy requirements (excluding the capital conservation buffer) that apply to the Bank and the Company.

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Material Cash Requirements and Capital Resources

The following table provides the material cash requirements from known contractual and other obligations as of as of June 30, 2023 September 30, 2023:

			Payments Due by Period					Payments Due by Period		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Total	Less than 1 Year	Over 1 year	Other (1)	(dollars in thousands; unaudited)	Total	Less than 1 Year	Over 1 year	Other (1)
Cash requirements	**Cash requirements**					**Cash requirements**				
Time Deposits	Time Deposits	$ 24,824	$ 20,182	$ 4,642	$ —	Time Deposits	$ 20,617	$ 16,351	$ 4,266	$ —
Subordinated notes	Subordinated notes	45,000	—	45,000	—	Subordinated notes	45,000	—	45,000	—
Junior subordinated debentures	Junior subordinated debentures	3,609	—	3,609	—	Junior subordinated debentures	3,609	—	3,609	—
Deferred compensation plans	Deferred compensation plans	848	175	673	—	Deferred compensation plans	804	175	629	—
Operating leases	Operating leases	7,726	995	6,731	—	Operating leases	7,593	1,022	6,571	—
Non-maturity deposits	Non-maturity deposits	3,137,748	—	—	3,137,748	Non-maturity deposits	3,269,083	—	—	3,269,083
Equity investment commitment	Equity investment commitment	763	763	—	—	Equity investment commitment	713	713	—	—

(1) Represents the undefined maturity of non-maturing deposits, including noninterest bearing demand deposits, interest bearing demand deposits, money market accounts, savings accounts and brokered deposits, which can generally be withdrawn on demand.

We maintain sufficient cash and cash equivalents and investment securities to meet short-term cash requirements and the levels of these assets are dependent on our operating, investing and financing activities during any given period. Cash on hand, cash at third-party banks, investments available-for-sale and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail, commercial, and BaaS deposits, advances from the FHLB and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from the Federal Reserve discount window, draws on established federal funds lines from unaffiliated commercial banks, funds from online rate services, brokered funds, a one-way buy through an ICS account, and the issuance of debt or equity securities.

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

Our commitments associated with outstanding commitments to extend credit and standby and commercial letters of credit are summarized in the following table. Since commitments associated with commitments to extend credit and letters of credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

As of June 30, 2023 September 30, 2023 we had $2.34 billion $2.35 billion in commitments to extend credit, compared to $2.20 billion as of December 31, 2022. The $144.0 million $151.6 million increase is largely attributed to an increase of $197.8 million $209.0 million in consumer and other loan commitments, related to CCBX consumer loans, $150.4 million $142.1 million decrease in commercial and industrial capital call line commitments, $22.1 million $791,000 increase in commercial construction loans and $85.3 million $102.5 million increase in residential real estate commitments, related to CCBX loans.

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The following table presents commitments associated with outstanding commitments to extend credit, standby and commercial letters of credit and equity investment commitments as of the periods indicated:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	As of June 30, 2023	As of December 31, 2022	(dollars in thousands; unaudited)	As of September 30, 2023	As of December 31, 2022
Commitments to extend credit:	Commitments to extend credit:			Commitments to extend credit:		
Commercial and industrial loans	Commercial and industrial loans	$ 77,223	$ 81,568	Commercial and industrial loans	$ 75,788	$ 81,568
Commercial and industrial loans - capital call lines	Commercial and industrial loans - capital call lines	622,319	772,732	Commercial and industrial loans - capital call lines	630,668	772,732
Construction – commercial real estate loans	Construction – commercial real estate loans	131,820	109,715	Construction – commercial real estate loans	110,506	109,715
Construction – residential real estate loans	Construction – residential real estate loans	27,257	32,827	Construction – residential real estate loans	23,189	32,827
Residential real estate loans	Residential real estate loans	460,004	374,735	Residential real estate loans	477,243	374,735
Commercial real estate loans	Commercial real estate loans	34,239	35,024	Commercial real estate loans	31,794	35,024
Consumer and other loans	Consumer and other loans	991,328	793,563	Consumer and other loans	1,002,582	793,563
Total commitments to extend credit	Total commitments to extend credit	$ 2,344,190	$ 2,200,164	Total commitments to extend credit	$ 2,351,770	$ 2,200,164
Standby letters of credit	Standby letters of credit	$ 1,299	$ 3,064	Standby letters of credit	$ 1,021	$ 3,064
Equity investment commitment	Equity investment commitment	$ 763	$ 988	Equity investment commitment	$ 713	$ 988

We have portfolio limits with our each of our partners to manage loan concentration risk, liquidity risk, and counter-party partner risk. For example, as of June 30, 2023 September 30, 2023, capital call lines outstanding balance totaled $138.4 million $114.2 million, and while commitments totaled $622.3 million $630.7 million the commitments are cancelable, and are also limited to a maximum of $350.0 million by agreement with the partner. These limits allow us to manage portfolio concentrations with partners and by loan type.

The following table shows the CCBX maximum portfolio sizes by loan category as of June 30, 2023 September 30, 2023.

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Type of Lending	Maximum Portfolio Size: As of June 30, 2023	Maximum Portfolio Size: As of December 31, 2022	Increase/(decrease)	(dollars in thousands; unaudited)	Type of Lending	Maximum Portfolio Size: As of September 30, 2023	Maximum Portfolio Size: As of December 31, 2022	Increase/(decrease)
Commercial and industrial loans:	Commercial and industrial loans:					Commercial and industrial loans:				
Capital call lines	Capital call lines	Business - Venture Capital	$ 350,000	$ 350,000	$ —	Capital call lines	Business - Venture Capital	$ 350,000	$ 350,000	$ —

All other commercial & industrial loans	All other commercial & industrial loans	Business - Small Business	309,573	65,856	243,717	All other commercial & industrial loans	Business - Small Business	334,946	65,856	269,090
Real estate loans:	Real estate loans:					Real estate loans:				
Home equity lines of credit	Home equity lines of credit	Home Equity - Secured Credit Cards	375,000	250,000	125,000	Home equity lines of credit	Home Equity - Secured Credit Cards	375,000	250,000	125,000
Consumer and other loans:	Consumer and other loans:					Consumer and other loans:				
Credit cards	Credit cards	Credit Cards - Primarily Consumer	526,520	600,770	(74,250)	Credit cards	Credit Cards - Primarily Consumer	626,832	600,770	26,062
Installment loans	Installment loans	Consumer	1,160,868	1,048,134	112,734	Installment loans	Consumer	1,054,741	1,048,134	6,607
Other consumer and other loans	Other consumer and other loans	Consumer - Secured Credit Builder & Unsecured consumer	603,039	190,240	412,799	Other consumer and other loans	Consumer - Secured Credit Builder & Unsecured consumer	608,480	190,240	418,240
			$ 3,325,000	$ 2,505,000	$ 820,000			$ 3,349,999	$ 2,505,000	$ 844,999
Total Existing Portfolio Size	Total Existing Portfolio Size		$ 1,294,519	$ 1,012,504	$ 282,015	Total Existing Portfolio Size		$ 1,182,374	$ 1,012,504	$ 169,870

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit, is based on management's credit evaluation of the customer. As of June 30, 2023 September 30, 2023, $1.61 billion $1.64 billion in commitments to extend credit are unconditionally cancelable, compared to $1.57 billion at December 31, 2022. The increase in unconditionally cancelable commitments is attributed to growth in CCBX loans. Commitments that are unconditionally cancelable allow us to better manage loan growth, credit concentrations and liquidity. We also limit

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CCBX partners to a maximum aggregate customer loan balance originated and held on our balance sheet, as shown in the table above.

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Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers.

We believe that we will be able to meet our long-term cash requirements as they come due. Adequate cash levels are generated through profitability, repayments from loans and securities, deposit gathering activity, access to borrowing sources and periodic loan sales.

Critical Accounting Policies

Our accounting policies are integral to understanding our results of operations. Our accounting policies are described in greater detail in "Note 1 - Description of Business and Summary of Significant Accounting Policies" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" of our Form 10-K. We have procedures and processes in place to facilitate making these judgments. Actual results in these areas could differ from management's estimates. There have been no significant changes concerning our critical accounting policies as described in our Form 10-K except as indicated in Note 1 of the condensed consolidated financial statements included elsewhere in this report.

Selected Financial Data

The following table shows the Company's key performance ratios for the periods indicated.

	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended

(unaudited)	(unaudited)	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	June 30, 2023	June 30, 2022
Return on average assets (1)	Return on average assets (1)	1.52 %	1.58 %	1.66 %	1.45 %	1.41 %	1.55 %	1.18 %
Return on average equity (1)	Return on average equity (1)	19.53 %	19.89 %	21.86 %	19.36 %	18.86 %	19.70 %	15.57 %
Yield on earnings assets (1)	Yield on earnings assets (1)	10.18 %	9.19 %	8.47 %	7.38 %	5.94 %	9.70 %	5.28 %
Yield on loans receivable (1)	Yield on loans receivable (1)	10.85 %	9.95 %	9.33 %	8.46 %	7.34 %	10.42 %	7.10 %
Cost of funds (1)	Cost of funds (1)	2.77 %	2.19 %	1.61 %	0.85 %	0.29 %	2.49 %	0.22 %
Cost of deposits (1)	Cost of deposits (1)	2.72 %	2.13 %	1.56 %	0.82 %	0.25 %	2.44 %	0.18 %
Net interest margin (1)	Net interest margin (1)	7.58 %	7.15 %	6.96 %	6.58 %	5.66 %	7.37 %	5.08 %
Noninterest expense to average assets (1)	Noninterest expense to average assets (1)	6.11 %	5.69 %	5.97 %	6.66 %	5.29 %	5.91 %	4.92 %
Noninterest income to average assets (1)	Noninterest income to average assets (1)	6.90 %	6.28 %	5.43 %	4.48 %	3.53 %	6.60 %	3.40 %
Efficiency ratio	Efficiency ratio	42.92 %	43.03 %	48.94 %	61.12 %	58.38 %	42.97 %	58.80 %
Loans receivable to deposits (2)	Loans receivable to deposits (2)	96.23 %	92.55 %	93.25 %	89.92 %	88.77 %	96.23 %	88.77 %

(unaudited)	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Return on average assets (1)	1.13 %	1.52 %	1.58 %	1.66 %	1.45 %	1.40 %	1.27 %
Return on average equity (1)	14.60 %	19.53 %	19.89 %	21.86 %	19.36 %	17.90 %	16.90 %
Yield on earnings assets (1)	10.08 %	10.18 %	9.19 %	8.47 %	7.38 %	9.84 %	6.03 %
Yield on loans receivable (1)	10.84 %	10.85 %	9.95 %	9.33 %	8.46 %	10.57 %	7.63 %
Cost of funds (1)	3.18 %	2.77 %	2.19 %	1.61 %	0.85 %	2.73 %	0.44 %
Cost of deposits (1)	3.14 %	2.72 %	2.13 %	1.56 %	0.82 %	2.69 %	0.41 %
Net interest margin (1)	7.10 %	7.58 %	7.15 %	6.96 %	6.58 %	7.27 %	5.61 %
Noninterest expense to average assets (1)	6.23 %	6.11 %	5.69 %	5.97 %	6.66 %	6.02 %	5.54 %
Noninterest income to average assets (1)	3.81 %	6.90 %	6.28 %	5.43 %	4.48 %	5.61 %	3.79 %
Efficiency ratio	58.36 %	42.92 %	43.03 %	48.94 %	61.12 %	47.60 %	59.77 %
Loans receivable to deposits (2)	90.19 %	96.23 %	92.55 %	93.25 %	89.92 %	90.19 %	89.92 %

(1) Annualized calculations shown for periods presented.

(2) Including loans held for sale.

CCBX – BaaS Reporting Information

During the three and six nine months ended June 30, 2023 September 30, 2023, $51.0 million $25.9 million and $93.4 million $119.3 million, respectively was recognized in noninterest income BaaS credit enhancements related to the establishment of a credit enhancement asset for future credit losses indemnified by our strategic partners and reserve reserved for unfunded commitments for CCBX partner loans and deposits. Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by indemnifying and/or reimbursing incurred losses on accounts originated through the partner. losses. In accordance with accounting guidance, we estimate and record a provision for expected losses on for these CCBX loans, unfunded commitments and negative deposit overdrafts. accounts. When the

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provision for credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through the recognition of noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's indemnification obligation and partner legal commitment to indemnify or reimburse losses. Incurred credit losses are recorded in the allowance for credit losses, and as the The credit enhancement asset is relieved as credit enhancement payments and recoveries are received from the CCBX

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partner or taken from the partner's cash reserve account, the credit enhancement asset is relieved. account. Agreements with our CCBX partners also provide protection to the Bank from fraud by requiring the CCBX partners to indemnify indemnifying or reimburse the Bank for reimbursing incurred fraud losses. BaaS fraud includes noncredit fraud losses on loans and deposits originated through partners. Fraud losses are recorded when incurred as losses in noninterest expense, and the recovery enhancement received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. CCBX partners also pledge a cash reserves in a restricted deposit reserve account at the Bank which the Bank can collect from when losses occur that is then replenished by the partner on a regular interval. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill its their contracted obligations beyond its to replenish their cash reserve account then the Bank would be exposed to additional loan and deposit losses, as a result of this counterparty risk. If a CCBX partner does not adequately replenish their cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit and fraud enhancements. The Bank would write-off any remaining credit and fraud enhancement asset from the CCBX partner not covered by the cash pledge account but would retain the full yield and loan any fee income on the loan going forward, and BaaS loan expense for that CCBX partner would decrease cease once default occurred and payments to the CCBX partner were stopped.

For CCBX partner loans the Bank records contractual interest earned from the borrower on loans in interest income, adjusted for origination costs which are paid or payable to the CCBX partner. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, and fraud enhancements andoriginating & servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Bank takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can then be compared to interest income on the Company's community bank loans.

The following table illustrates how CCBX partner loan income and expenses are recorded in the financial statements:

Loan income and related loan expense	**Loan income and related loan expense**	**Three Months Ended**		**Six Months Ended**		**Loan income and related loan expense**	**Three Months Ended**		**Nine Months Ended**	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**	(dollars in thousands; unaudited)	**September 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
BaaS loan interest income	BaaS loan interest income	$ 53,632	$ 21,281	$ 95,851	$ 33,273	BaaS loan interest income	$ 56,279	$ 31,449	$ 152,131	$ 64,721
Less: BaaS loan expense	Less: BaaS loan expense	22,033	12,229	39,587	20,519	Less: BaaS loan expense	23,003	15,560	62,590	36,079
Net BaaS loan income (1) (2)	Net BaaS loan income (1) (2)	31,599	9,052	56,264	12,754	Net BaaS loan income (1) (2)	33,276	15,889	89,541	28,642
Net BaaS loan income divided by average BaaS loans (1) (2)	Net BaaS loan income divided by average BaaS loans (1) (2)	9.98 %	5.25 %	9.72 %	4.78 %	Net BaaS loan income divided by average BaaS loans (1) (2)	10.08 %	7.05 %	9.85 %	5.82 %
Yield on loans (2) (1)	Yield on loans (2) (1)	16.95 %	12.35 %	16.56 %	12.48 %	Yield on loans (2) (1)	17.05 %	13.96 %	16.74 %	13.16 %

(1) Annualized calculations shown for periods presented.

(2) A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"

(2) Annualized calculations shown for periods presented.

The increased activity of CCBX partners has resulted in increases in direct fees, expenses and interest for the three and six nine months ended June 30, 2023 September 30, 2023 compared to the three and six nine months ended June 30, 2022 September 30, 2022. The following tables are a summary of the direct fees, expenses and interest components of BaaS for the periods indicated and are not inclusive of all income and expense related to BaaS.

Interest income	**Three Months Ended**		**Six Months Ended**	
(dollars in thousands; unaudited)	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
Loan interest income	$ 53,632	$ 21,281	$ 95,851	$ 33,273
Total BaaS interest income	$ 53,632	$ 21,281	$ 95,851	$ 33,273

Interest expense	Three Months Ended		Six Months Ended	
(dollars in thousands; unaudited)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
BaaS interest expense	$ 17,012	$ 1,356	$ 29,436	$ 1,474
Total BaaS interest expense	$ 17,012	$ 1,356	$ 29,436	$ 1,474

Interest income	Three Months Ended		Nine Months Ended	
(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Loan interest income	$ 56,279	$ 31,449	$ 152,131	$ 64,721
Total BaaS interest income	$ 56,279	$ 31,449	$ 152,131	$ 64,721

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	Three Months Ended		Six Months Ended	
(dollars in thousands; unaudited)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
BaaS program income:				
Servicing and other BaaS fees	$ 895	$ 1,159	$ 1,843	$ 2,328
Transaction fees	1,052	814	1,969	1,307
Interchange fees	975	628	1,764	1,060
Reimbursement of expenses	1,026	618	1,947	990
BaaS program income	3,948	3,219	7,523	5,685
BaaS indemnification income:				
BaaS credit enhancements	51,027	14,207	93,389	27,282
BaaS fraud enhancements	1,537	6,474	3,536	11,045
BaaS indemnification income	52,564	20,681	96,925	38,327
Total BaaS income	$ 56,512	$ 23,900	$ 104,448	$ 44,012

Interest expense	Three Months Ended		Nine Months Ended	
(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
BaaS interest expense	$ 20,384	$ 5,075	$ 49,820	$ 6,549
Total BaaS interest expense	$ 20,384	$ 5,075	$ 49,820	$ 6,549

	Three Months Ended		Six Months Ended	
(dollars in thousands; unaudited)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
BaaS loan and fraud expense:				
BaaS loan expense	$ 22,033	$ 12,229	$ 39,587	$ 20,519
BaaS fraud expense	1,537	6,474	3,536	11,045
Total BaaS loan and fraud expense	$ 23,570	$ 18,703	$ 43,123	$ 31,564

	Three Months Ended		Nine Months Ended	
(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
BaaS program income:				

Servicing and other BaaS fees	$ 997	$ 1,079	$ 2,840	$ 3,407
Transaction fees	1,036	940	3,005	2,247
Interchange fees	1,216	738	2,980	1,798
Reimbursement of expenses	1,152	885	3,099	1,875
BaaS program income	4,401	3,642	11,924	9,327
BaaS indemnification income:				
BaaS credit enhancements	25,926	17,928	119,315	45,210
BaaS fraud enhancements	2,850	11,708	6,386	22,753
BaaS indemnification income	28,776	29,636	125,701	67,963
Total BaaS income	$ 33,177	$ 33,278	$ 137,625	$ 77,290

	Three Months Ended		Nine Months Ended	
(dollars in thousands; unaudited)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
BaaS loan and fraud expense:				
BaaS loan expense	$ 23,003	$ 15,560	$ 62,590	$ 36,079
BaaS fraud expense	2,850	11,707	6,386	22,752
Total BaaS loan and fraud expense	$ 25,853	$ 27,267	$ 68,976	$ 58,831

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. As other companies may use different calculations for these adjusted measures, this presentation may not be comparable to other similarly titled adjusted measures reported by other companies.

The following non-GAAP measure is presented to illustrate the impact of BaaS loan expense on net loan income and yield on CCBX loans.

Net BaaS loan income divided by average CCBX loans is a non-GAAP measure that includes the impact BaaS loan expense on net BaaS loan income and the yield on CCBX loans. The most directly comparable GAAP measure is yield on CCBX loans.

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Reconciliations of the GAAP and non-GAAP measures are presented in the following table.

		As of and for the Three Months Ended		As of and for the Six Months Ended			As of and for the Three Months Ended		As of and for the Nine Months Ended	
(dollars in thousands; unaudited)	**(dollars in thousands; unaudited)**	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**	**(dollars in thousands; unaudited)**	**September 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Net BaaS loan income divided by average CCBX loans:	**Net BaaS loan income divided by average CCBX loans:**					**Net BaaS loan income divided by average CCBX loans:**				
CCBX loan yield (GAAP)(1)	CCBX loan yield (GAAP)(1)	16.95 %	12.35 %	16.56 %	12.48 %	CCBX loan yield (GAAP)(1)	17.05 %	13.96 %	16.74 %	13.16 %
Total average CCBX loans receivable	Total average CCBX loans receivable	$ 1,269,406	$ 691,294	$ 1,167,366	$ 537,577	Total average CCBX loans receivable	$ 1,309,380	$ 893,655	$ 1,215,224	$ 657,574
Interest and earned fee income on CCBX loans (GAAP)	Interest and earned fee income on CCBX loans (GAAP)	53,632	21,281	95,851	33,273	Interest and earned fee income on CCBX loans (GAAP)	56,279	31,449	152,131	64,721

BaaS loan expense	BaaS loan expense	(22,033)	(12,229)	(39,587)	(20,519)	BaaS loan expense	(23,003)	(15,560)	(62,590)	(36,079)
Net BaaS loan income	Net BaaS loan income	$ 31,599	$ 9,052	$ 56,264	$ 12,754	Net BaaS loan income	$ 33,276	$ 15,889	$ 89,541	$ 28,642
Net BaaS loan income divided by average CCBX loans (1)	Net BaaS loan income divided by average CCBX loans (1)	9.98 %	5.25 %	9.72 %	4.78 %	Net BaaS loan income divided by average CCBX loans (1)	10.08 %	7.05 %	9.85 %	5.82 %

(1) Annualized calculations for periods presented.

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Item 3. Quantitative and Qualitative Disclosure about Market Risk

Quantitative and Qualitative Disclosures about Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest earning assets and interest bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a decrease in current fair market values. Our objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. The FOMC raised interest rates 0.25% in mid-March 2022, 1.25% in the second quarter of 2022, 1.50% in the third quarter of 2022, 1.25% in the fourth quarter of 2022, 0.50% in the first quarter 2023, and 0.25% in the second quarter 2023 and 0.25% so far in the third quarter of 2023, with a potential for further increases expected in the future. The impact of this and any future increases will impact financial results.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset Liability Committee ("ALCO"), of the Bank and reviewed by the Asset Liability and Investment Committee of our board of directors in accordance with policies approved by our board of directors. ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, ALCO considers the impact on earnings and capital on the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, ALCO reviews liquidity, cash flows, maturities of deposits and consumer and commercial deposit activity. Management employs various methodologies to manage interest rate risk including an analysis of relationships between interest earning assets and interest bearing liabilities and interest rate simulations using a model. The Asset Liability and Investment Committee of our board of directors meets regularly to review the Bank's interest rate risk profile, liquidity position, including contingent liquidity, and investment portfolio.

We use interest rate risk simulation models to test interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of non-maturity deposit accounts are based on historical decay rates and assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies. To help ensure the accuracy of the model, we perform a quarterly back test against our actual results.

On a quarterly basis, we run multiple simulations under two different premises of which one is a static balance sheet and the other is a dynamic growth balance sheet. The static balance sheet approach produces results that show the interest risk currently inherent in our balance sheet at that point in time. The dynamic balance sheet includes our projected growth levels going forward and produces results that shows how net income, net interest income, and interest risk change based on our projected growth. These simulations test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic approaches, rates are shocked instantaneously and ramped over a 12-month horizon assuming parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulations are also conducted and involve analysis of interest income and expense under various changes in the shape of the yield curve including a forward curve, flat curve, steepening curve, and an inverted curve. Our internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the

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subsequent one- and two-year period should not decline by more than 10% for a 100 basis point shift, 15% for a 200 basis point shift, 20% for a 300 basis point shift, and 25% for a 400 basis point shift.

The following tables summarize the simulated change in net interest income over a 12-month horizon as of the dates indicated:

(unaudited)	(unaudited)			(unaudited)		
Change in Market Interest Rates	**Change in Market Interest Rates**	**Twelve Month Projection As of June 30, 2023**	**Twelve Month Projection As of December 31, 2022**	**Change in Market Interest Rates**	**Twelve Month Projection As of September 30, 2023**	**Twelve Month Projection As of December 31, 2022**
Static Balance Sheet and Rate Shifts	**Static Balance Sheet and Rate Shifts**			**Static Balance Sheet and Rate Shifts**		
+400 basis points	+400 basis points	10.6%	15.2%	+400 basis points	10.7%	15.2%
+300 basis points	+300 basis points	8.0%	11.4%	+300 basis points	8.0%	11.4%
+200 basis points	+200 basis points	5.3%	7.6%	+200 basis points	5.4%	7.6%
+100 basis points	+100 basis points	2.7%	3.8%	+100 basis points	2.7%	3.8%
-100 basis points	-100 basis points	(2.9)%	(4.1)%	-100 basis points	(4.0)%	(4.1)%
-200 basis points	-200 basis points	(6.0)%	(8.5)%	-200 basis points	(8.9)%	(8.5)%
-300 basis points	-300 basis points	(9.4)%	(13.0)%	-300 basis points	(14.0)%	(13.0)%
-400 basis points	-400 basis points	(13.0)%	(18.8)%	-400 basis points	(22.5)%	(18.8)%
Dynamic Balance Sheet and Rate Shifts	**Dynamic Balance Sheet and Rate Shifts**			**Dynamic Balance Sheet and Rate Shifts**		
+400 basis points	+400 basis points	13.3%	17.6%	+400 basis points	14.0%	17.6%
+300 basis points	+300 basis points	9.9%	13.2%	+300 basis points	10.5%	13.2%
+200 basis points	+200 basis points	6.6%	8.8%	+200 basis points	7.0%	8.8%
+100 basis points	+100 basis points	3.3%	4.4%	+100 basis points	3.5%	4.4%
-100 basis points	-100 basis points	(3.5)%	(4.6)%	-100 basis points	(4.6)%	(4.6)%
-200 basis points	-200 basis points	(7.2)%	(9.5)%	-200 basis points	(10.1)%	(9.5)%
-300 basis points	-300 basis points	(10.9)%	(14.5)%	-300 basis points	(15.7)%	(14.5)%
-400 basis points	-400 basis points	(14.6)%	(20.8)%	-400 basis points	(24.5)%	(20.8)%

The results illustrate that the Company is asset sensitive and generally performs better in an increasing interest rate environment. As the Company's composition has shifted overtime due to the growth of the CCBX segment to more variable/adjustable in nature, our interest rate risk profile has migrated, slightly reducing our exposure to interest rate risk from declining rates. For the community bank, the drivers are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, offering rates on our community bank deposits change more slowly than changes in short-term market rates. For the CCBX segment, the offering rates on the loan portfolio are modeled using partner contractual net yields which adjust with market shifts. For this CCBX portfolio, the offering rates on both the loans and the deposits nearly fully reprice with changes in market rates. The assumptions incorporated into the simulation model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact that fluctuations in market interest rates have on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions, the shape of the interest yield curve, and the application and timing of various assumptions and strategies.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Company's Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded,

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processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Change in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting occurred during the six nine months ended June 30, 2023 September 30, 2023, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For information regarding the Company's risk factors, see "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which are incorporated by reference herein. As of June 30, 2023 September 30, 2023, the risk factors of the Company have not changed materially from those disclosed in the Form 10-K.

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

There were no unregistered sales of the Company's equity securities during the six nine months ended June 30, 2023 September 30, 2023.

The Company did not repurchase any of its equity securities during the six nine months ended June 30, 2023 September 30, 2023 and does not have any authorized share repurchase programs.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the period covered by this Quarterly Report on Form 10-Q, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter months ended June 30, 2023 September 30, 2023, formatted in inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.
104	Cover Page Interactive Data (formatted as Inline XBRL and contained in Exhibit 101 filed herewith)

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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.

			COASTAL FINANCIAL CORPORATION
Dated:	August November 7, 2023	By:	/s/ Eric M. Sprink
			Eric M. Sprink
			Chief Executive Officer
			(Principal Executive Officer)
Dated:	August November 7, 2023	By:	/s/ Joel G. Edwards
			Joel G. Edwards
			Executive Vice President and
			Chief Financial Officer
			(Principal Financial Officer)

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Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric M. Sprink, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coastal Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2023 November 7, 2023 By: /s/ Eric M. Sprink

Eric M. Sprink

Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joel G. Edwards, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coastal Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2023 November 7, 2023 By: /s/ Joel G. Edwards

Joel G. Edwards

Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION 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 Coastal Financial Corporation (the "Company") on Form 10-Q for the period ending June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2023 November 7, 2023

By: /s/ Eric M. Sprink

Eric M. Sprink

Chief Executive Officer

Exhibit 32.2

CERTIFICATION 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 Coastal Financial Corporation (the "Company") on Form 10-Q for the period ending June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2023 November 7, 2023

By: /s/ Joel G. Edwards

Joel G. Edwards

Executive Vice President and Financial Officer

DISCLAIMER

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