

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period March 31, 2024
ended OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File 001-41196
Number:



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

Florida
(State or other jurisdiction
of incorporation or
organization)

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

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

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

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

<u>Title of each</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A common stock, \$1.00 par value per share	USCB	Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. No

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

Yes
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date April 30, 2024 the registrant had 19,655,632 of Class A common stock outstanding.



FORM 10-Q
March 31, 2024

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PART I
Item 1. Financial Statements

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

	March 31, 2024	December 31, 2023
ASSETS:		
Cash and due from banks	\$ 9,601	\$ 8,019
Interest-bearing deposits in banks	<u>116,945</u>	<u>33,043</u>
Total cash and cash equivalents	126,546	41,062
Investment securities held to maturity, net of allowance of \$2 and \$8, respectively (fair value \$152,156 and \$155,510, respectively)	173,038	174,974
Investment securities available for sale, at fair value	259,992	229,329
Federal Home Loan Bank stock, at cost	5,532	10,153
Loans held for investment, net of allowance of \$1,454 and \$21,084, respectively	1,799,742	1,759,743
Accrued interest receivable	11,579	10,688
Premises and equipment, net	4,787	4,836
Bank owned life insurance	52,192	51,781
Deferred tax assets, net	36,249	37,282
Lease right-of-use asset	10,680	11,423
Other assets	8,805	7,822
Total assets	<u>\$ 2,489,142</u>	<u>\$ 2,339,093</u>
LIABILITIES:		
Deposits:		
Demand deposits	\$ 576,626	\$ 552,762
Money market and savings accounts	1,141,422	1,048,272
Interest-bearing checking	57,839	47,702
Time deposits	<u>326,907</u>	<u>288,403</u>
Total deposits	2,102,794	1,937,139
Federal Home Loan Bank advances and other borrowings	162,000	183,000
Lease liability	10,680	11,423
Accrued interest and other liabilities	<u>18,657</u>	<u>15,563</u>
Total liabilities	<u>2,294,131</u>	<u>2,147,125</u>
Commitments and contingencies (See Notes 5 and 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock - Class C; 1.00 par value; \$1,000 per share liquidation	52,748 shares	
Authorized; 0 and 0 issued and outstanding as of March 31, 2024 and December 31, 2023		-
Preferred stock - Class D; 1.00 par value; \$6.00 per share liquidation	12,309,480 shares	
Authorized; 0 and 0 issued and outstanding as of March 31, 2024 and December 31, 2023		-
Preferred stock - Class E; 1.00 par value; \$1,000 per share liquidation	3,185,024 shares	
Authorized; 0 and 0 issued and outstanding as of March 31, 2024 and December 31, 2023		-
Common stock - Class A Voting; 1.00 par value; 45,000,000 shares authorized; 19,650,463 issued and outstanding as of March 31, 2024; 19,575,435 issued and outstanding as of December 31, 2023	19,650	19,575
Common stock - Class B Non-voting; 1.00 par value; 8,000,000 shares authorized; 0 and 0 issued and outstanding as of March 31, 2024 and December 31, 2023		-
Additional paid-in capital on common stock	305,740	305,212
Accumulated deficit	(84,952)	(88,548)
Accumulated other comprehensive loss	(45,427)	(44,271)
Total stockholders' equity	<u>195,011</u>	<u>191,968</u>
Total liabilities and stockholders' equity	<u>\$ 2,489,142</u>	<u>\$ 2,339,093</u>

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

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

	<u>Three Months Ended March 31,</u>	
	<u>2024</u>	<u>2023</u>
Interest income:		
Loans, including fees	\$ 26,643	\$ 19,711
Investment securities	2,811	2,286
Interest-bearing deposits in financial institutions	1,433	382
Total interest income	30,887	22,379
Interest expense:		
Interest-bearing checking	369	43
Money market and savings accounts	10,394	4,785
Time deposits	3,294	1,057
Federal Home Loan Bank advances and other borrowings	1,672	497
Total interest expense	15,729	6,382
Net interest income before provision for credit losses	15,158	15,997
Provision for credit losses	410	201
Net interest income after provision for credit losses	14,748	15,796
Non-interest income:		
Service fees	1,651	1,205
(Loss) gain on sale of securities available for sale, net	-	(21)
Gain on sale of loans held for sale, net	67	347
Other non-interest income	746	539
Total non-interest income	2,464	2,070
Non-interest expense:		
Salaries and employee benefit expense	6,310	6,377
Regulatory assessment and fees	1,314	1,299
Consulting and legal fees	433	224
Network and information technology services	592	358
Other operating expense	507	478
Total non-interest expense	2,018	1,440
Income before income tax expense	11,174	10,176
Income tax expense	6,038	7,690
Net income	\$ 4,612	\$ 5,809
Per share information:		
Net income per share, basic	\$ 0.23	\$ 0.29
Net income per share, diluted	\$ 0.23	\$ 0.29
Cash dividend declared	\$ 0.05	\$ -

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

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

	Three Months Ended March 31,	
	2024	2023
Net income	\$ 4,612	\$ 5,809
Other comprehensive income (loss):		
Unrealized gain (loss) on investment securities	(2,134)	3,637
Amortization of net unrealized gain (loss) on securities transferred from available-for-sale to held-to-maturity	67	(60)
Reclassification adjustment for (gain) loss included in net income	-	21
Unrealized gain on cash flow hedge	519	-
Tax effect	392	(912)
Total other comprehensive income (loss), net of tax	(1,156)	2,686
Total comprehensive income	\$ 3,456	\$ 8,495

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

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

Common Stock						
	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2023	19,575,435	\$ 19,575	\$ 305,212	\$ (88,548)	\$ (44,271)	\$ 191,968
Net income	-	-	-	4,612	-	4,612
Other comprehensive loss	-	-	-	-	(1,156)	(1,156)
Repurchase of Class A common stock	(7,100)	(7)	(72)	-	-	(79)
Restricted stock issued	52,753	53	(53)	-	-	-
Restricted stock forfeiture	(8,625)	(9)	9	-	-	-
Exercise of stock options	38,000	38	284	-	-	322
Dividend payment	-	-	-	(1,016)	-	(1,016)
Stock-based compensation	-	-	360	-	-	360
Balance at March 31, 2024	19,650,463	\$ 19,650	\$ 305,740	\$ (84,952)	\$ (45,427)	\$ 195,011
Balance at December 31, 2022	20,000,753	\$ 20,001	\$ 311,282	\$ (104,104)	\$ (44,751)	\$ 182,428
Cumulative effect of adoption of accounting principle related to ASC 326	-	-	-	(1,325)	-	(1,325)
Adjusted beginning balance after cumulative effect adjustment	20,000,753	20,001	311,282	(105,429)	(44,751)	181,103
Net income	-	-	-	5,809	-	5,809
Other comprehensive loss	-	-	-	-	2,686	2,686
Repurchase of Class A common stock	(500,000)	(500)	(5,367)	-	-	(5,867)
Restricted stock issued	121,627	121	(121)	-	-	-
Stock-based compensation	-	-	127	-	-	127
Balance at March 31, 2023	19,622,380	\$ 19,622	\$ 305,921	\$ (99,620)	\$ (42,065)	\$ 183,858

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

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

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 4,612	\$ 5,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	410	201
Depreciation and amortization	140	150
(Accretion) amortization of premiums on securities, net	(135)	(38)
Accretion of deferred loan fees, net	(3)	(93)
Stock-based compensation	360	127
Loss (gain) on sale of available for sale securities	-	21
Gain on sale of loans held for sale	(67)	(347)
Increase in cash surrender value of bank owned life insurance	(411)	(267)
Decrease in deferred tax assets	1,424	1,881
Net change in operating assets and liabilities:		
Accrued interest receivable	(891)	(670)
Other assets	(464)	284
Accrued interest and other liabilities	3,051	1,943
Net cash provided by operating activities	<u>8,026</u>	<u>9,001</u>
Cash flows from investing activities:		
Proceeds from maturities and pay-downs of investment securities held to maturity	1,987	2,406
Purchase of investment securities available for sale	(36,927)	(7,667)
Proceeds from maturities and pay-downs of investment securities available for sale	4,278	3,261
Proceeds from sales of investment securities available for sale	-	8,617
Net increase in loans held for investment	(15,830)	(77,413)
Purchase of loans held for investment	(25,249)	-
Additions to premises and equipment	(91)	(22)
Proceeds from the sale of loans held for sale	787	4,847
Proceeds from the redemption of Federal Home Loan Bank stock	4,798	3,570
Purchase of Federal Home Loan Bank stock	(177)	(6,831)
Net cash used in investment activities	<u>(66,424)</u>	<u>(69,232)</u>
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock, net	322	-
Cash dividends paid	(1,016)	-
Repurchase of Class A common stock	(79)	(5,867)
Net increase in deposits	165,655	1,181
Proceeds from other borrowings	80,000	158,000
Repayments on Federal Home Loan Bank advances	(101,000)	(84,000)
Net cash provided by financing activities	<u>143,882</u>	<u>69,314</u>
Net increase in cash and cash equivalents	85,484	9,083
Cash and cash equivalents at beginning of period	41,062	54,168
Cash and cash equivalents at end of period	<u>\$ 126,546</u>	<u>\$ 63,251</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 14,624	\$ 6,044
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans held for investment to loans held for sale	\$ 720	\$ 4,500

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

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

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

Basis of Presentation

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

Principles of Consolidation

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

Use of Estimates

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

Reclassifications

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

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Reference Rate Reform

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-04, Reference Rate (TopRef048), aiming to facilitate the impacts of reference rate reform on financial reporting. This initiative was subsequently clarified in January 2021 through ASU 2021-01, providing optional directives for a designated timeframe to challenges associated with accounting for, or acknowledging the effects of, reference rate reform on financial reporting. The amendments offer discretionary guidance for a defined period to alleviate potential accounting expedients with reference rate reform in financial reporting. The expedients and exceptions provided by these amendments are not applicable to contract modifications executed and hedging relationships initiated or reviewed after December 31, 2022, except for pre-existing hedging relationships as of December 31, 2022, for which an entity has opted for special expedients, and which are retained until the conclusion of the hedging relationship. Additionally, the amendments permit entities to make a one-time choice to divest, transfer, or both divest and transfer debt securities categorized as held to maturity, referencing a rate impacted by reference rate reform, and classified as held to maturity prior to January 1, 2020. In December 2022, the FASB issued new guidance extending the expiration date of this guidance from December 31, 2022, to December 31, 2024, after which entities will no longer be authorized to apply the relief provided under this guidance.

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

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

Issued and Not Yet Adopted

Improvements to Income Tax Disclosures

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

2. INVESTMENT SECURITIES

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

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

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

At quarter end, HTM securities included ~~163.7~~ million of U.S. Government and U.S. Agency issued bonds and mortgage-backed securities. Because of the explicit and/or implicit guarantee on these bonds, the Company no longer holds these on these holdings. The remaining portion of the HTM portfolio is made up of ~~0.6~~ million in investment grade corporate bonds. The required reserve for these holdings is determined each quarter using the model described above. For the portion of the HTM exposed to non-government credit risk, the Company utilized the PD/LGD methodology to estimate a \$12 thousand Allowance for credit losses ("ACL") as of March 31, 2024. The book value for debt securities classified as HTM represents amortized cost less ACL.

The Company determined that an ACL on its debt securities available for sale as of March 31, 2024 and December 31, 2023 was not required.

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

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

	March 31, 2024			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government Agency	\$ 17,168	\$ 25	\$ (1,644)	\$ 15,549
Collateralized mortgage	130,533	1	(24,165)	106,369
Mortgage-backed securities - residential	62,734	-	(12,397)	50,337
Mortgage-backed securities -	48,182	70	(6,550)	41,702
Municipal securities	24,985	-	(5,924)	19,061
Bank subordinated debt	28,622	471	(2,119)	26,974
securities	<u>\$ 312,224</u>	<u>\$ 567</u>	<u>\$ (52,799)</u>	<u>\$ 259,992</u>
Held-to-maturity:				
U.S. Government Agency	\$ 43,439	\$ -	\$ (5,816)	\$ 37,623
Collateralized mortgage	61,465	2	(8,336)	53,131
Mortgage-backed securities - residential	43,383	160	(4,930)	38,613
Mortgage-backed securities -	15,409	-	(1,301)	14,108
Commercial bonds	9,354	-	(673)	8,681
	<u>\$ 173,050</u>	<u>\$ 162</u>	<u>\$ (21,056)</u>	<u>\$ 152,156</u>
Allowance for credit losses - securities held-to-maturity	<u>(12)</u>			
Securities held-to-maturity, net of allowance for credit losses	<u><u>\$ 173,038</u></u>			
	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government Agency	\$ 9,664	\$ -	\$ (1,491)	\$ 8,173
Collateralized mortgage	103,645	-	(23,039)	80,606
Mortgage-backed securities - residential	63,795	-	(11,608)	52,187
Mortgage-backed securities -	49,212	56	(6,504)	42,764
Municipal securities	25,005	-	(5,667)	19,338
Bank subordinated debt	28,106	188	(2,033)	26,261
Corporate bonds	-	-	-	-
	<u>\$ 279,427</u>	<u>\$ 244</u>	<u>\$ (50,342)</u>	<u>\$ 229,329</u>
Held-to-maturity:				
U.S. Government Agency	\$ 43,626	\$ 2	\$ (5,032)	\$ 38,306
U.S.	62,735	-	(7,983)	54,752
Collateralized mortgage	43,784	348	(4,533)	39,599
Mortgage-backed securities - residential	15,439	-	(1,257)	14,182
Mortgage-backed securities -	9,398	-	(727)	8,671
Commercial	<u>\$ 174,982</u>	<u>\$ 350</u>	<u>\$ (19,822)</u>	<u>\$ 155,510</u>
Allowance for credit losses - securities held-to-maturity	<u>(8)</u>			
Securities held-to-maturity, net of allowance for credit losses	<u><u>\$ 174,974</u></u>			

During the quarter ended March 31, 2024 there were no investment securities that were transferred from available-for-sale ("AFS") to HTM. For the three months ended March 31, 2024, total amortization out of Additional Other Comprehensive Income ("AOCI") for net unrealized losses on securities transferred in 2022 from AFS to HTM was \$0.6 million. The unamortized net unrealized loss as of March 31, 2024, was \$ 9.5 million.

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

Gains and losses on the sale of securities are recorded on the trade date and are determined on the ~~identifiable~~ specific basis. The following table presents the proceeds, realized gross gains and realized gross losses on sales and calls of AFS debt securities for the three months ended March 31, 2024 and 2023 (in thousands):

Available-for-sale:	Three Months Ended March	
	31-2024	2023
Proceeds from sale and call of securities	\$ -	\$ 8,617
Gross gains	\$ -	\$ 3
Gross losses	\$ -	(24)
Net realized (loss)	\$ -	\$ (21)

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

March 31, 2024:	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -	\$ -	\$ -
After one year through five	2,722	2,863	9,354	8,681
After five years through ten	38,045	33,506	-	-
After ten years	12,840	9,666	-	-
Government Agency	17,168	15,549	43,439	37,623
Collateralized mortgage	130,533	106,369	61,465	53,131
Mortgage-backed securities - residential	62,734	50,337	43,383	38,613
Mortgage-backed securities - commercial	48,182	41,702	15,409	14,108
	<u>\$ 312,224</u>	<u>\$ 259,992</u>	<u>\$ 173,050</u>	<u>\$ 152,156</u>

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

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

	March 31, 2024				
	Less than 12 months		12 months or more		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Government Agency	\$ 4,601	\$ (19)	\$ 45,668	\$ (8,648)	\$ 50,269
Collateralized mortgage	26,015	(85)	131,005	(36,916)	157,020
Mortgage-backed securities - residential	8,043	(129)	80,907	(19,620)	88,950
Mortgage-backed securities - commercial	15,004	(254)	38,777	(9,062)	53,781
Bank subordinated debt	3,198	(159)	13,471	(1,960)	16,669
Corporate bonds	-	-	19,061	(5,924)	19,061
	<u>\$ 56,861</u>	<u>\$ (646)</u>	<u>\$ 337,570</u>	<u>\$ (82,517)</u>	<u>\$ 394,431</u>
					<u>\$ (83,163)</u>

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

The unrealized losses associated with \$128.5 million of investment securities transferred from the AFS portfolio to the HTM portfolio represent unrealized losses since the date of purchase, independent of the impact associated with changes in the cost basis of the securities upon transfer between portfolios.

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

At March 31, 2024, the Company had \$77 million of unrealized losses on mortgage-backed securities collateralized mortgage obligations of U.S. government sponsored entities having a fair value of \$304.3 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase.

At December 31, 2023, the Company had \$49 million of unrealized losses on mortgage backed securities collateralized mortgage obligations of government sponsored entities having a fair value of \$284.5 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase.

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

At March 31, 2024, the Company does not intend to sell debt securities that are in an unrealized loss position and it is more than likely not required to sell these securities before recovery of the amortized cost basis.

The Company maintains a master repurchase agreement with a public banking institution for up to \$20.0 million fully guaranteed with investment securities upon withdrawal. Any amounts borrowed would be at a variable interest rate based on prevailing rates at the time funding is requested. As of March 31, 2024, the Company did not have any securities pledged under this agreement.

The Bank is a Qualified Public Depository ("QPD") with the State of Florida. As a QPD, the Bank has the legal authority to maintain public deposits from cities, municipalities, and the State of Florida. These public deposits are secured by pledged to the State of Florida at a ratio of 60% of the outstanding uninsured deposits for March 31, 2024 and 25% for December 31, 2023. The Bank must also maintain a minimum amount of pledged securities to be in the public program.

As of March 31, 2024, the Bank had a total of \$49.6 million in deposits under the public funds program and pledged to the State of Florida for these public funds were fifty-one bonds with an aggregate fair value of \$ 137.0 million.

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

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

The Company had \$ 80 million in borrowings under the BTFP program as of March 31, 2024, and had pledged \$130.3 million in securities measured at par to the Federal Reserve Bank of Atlanta for the BTFP program. The BTFP program ceased making new loans as of March 2024.

3. LOANS

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

	March 31, 2024		December 31, 2023	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	\$ 237,906	13.1 %	\$ 204,419	11.5 %
Commercial Real Estate	1,057,800	58.2 %	1,047,593	58.8 %
Commercial and Industrial	228,045	12.5 %	219,757	12.4 %
Foreign	100,182	5.5 %	114,945	6.5 %
Banker and Other	194,325	10.7 %	191,930	10.8 %
Total gross loans	1,818,258	100.0 %	1,778,644	100.0 %
Plus: Deferred costs	2,938		2,183	
Total loans net of deferred fees (costs)	1,821,196		1,780,827	
Less: Allowance for credit	21,454		21,084	
Net loans	\$ 1,799,742		\$ 1,759,743	

At March 31, 2024 and December 31, 2023, the Company had \$66.7 million and \$34.2 million, respectively, of commercial real estate and residential mortgage loans pledged as collateral for lines of credit with the FHLB and the Federal Reserve Bank of Atlanta.

Allowance for Credit Losses

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

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

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

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Changes in the ACL for the three months ended March 31, 2024 and 2023 were as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended March 31,						
2024						
Beginning balance	\$ 2,695	\$ 10,366	\$ 3,974	\$ 911	\$ 3,138	\$ 21,084
Provision for credit ⁽¹⁾	235	(64)	288	(117)	21	363
Recoveries	-	-	10	-	2	12
Charge-offs	-	-	-	-	(5)	(5)
Ending Balance	<u>\$ 2,930</u>	<u>\$ 10,302</u>	<u>\$ 4,272</u>	<u>\$ 794</u>	<u>\$ 3,156</u>	<u>\$ 21,454</u>

(1) Provision for credit losses excludes a \$43 thousand charge due to unfunded commitments included in other liabilities and a \$4 thousand charge related to investment securities held to maturity.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended March 31,						
2023						
Beginning balance	\$ 1,352	\$ 10,143	\$ 4,163	\$ 720	\$ 1,109	\$ 17,487
Cumulative effect of adoption of CECL ⁽²⁾	1,238	1,105	(2,158)	23	858	1,066
Provision for credit ⁽²⁾	221	(795)	318	29	512	285
Recoveries	8	-	44	-	2	54
Charge-offs	-	-	-	-	(5)	(5)
Ending Balance	<u>\$ 2,819</u>	<u>\$ 10,453</u>	<u>\$ 2,367</u>	<u>\$ 772</u>	<u>\$ 2,476</u>	<u>\$ 18,887</u>

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

(2) Provision for credit losses excludes a \$84 thousand release due to unfunded commitments included in other liabilities.

At March 31, 2024, the ACL was \$21.5 million compared to \$21.1 million at December 31, 2023. The increase of \$0.4 million was composed of a \$363 thousand increase in the ACL for loan receivables due to loan growth and to net charge-offs.

The Company had charge offs totaling \$ 5 thousand for the quarter ended March 31, 2024 related to loans that were all originated in 2024.

The Company had charge offs totaling \$ 5 thousand for the quarter ended as of March 31, 2023 on loans that were all originated in 2023.

The Federal Open Market Committee ("FOMC") economic forecasts as of March 31, 2024, showed improvements in unemployment and a slower real GDP growth. Fannie Mae HPI forecast reflected important improvement in national housing prices over the next four quarters. The Company continued to adjust the HPI index effect on 1-4 Family loan portfolio with a qualitative factor because Florida housing prices are performing better than national levels. Q-Factors were reviewed and updated; maximum loss calculations are based on refreshed stress test and risk statuses were updated based on portfolio and external developments during the first quarter 2024.

Our ACL included residential loans. To assess the potential impact of changes in qualitative factors related to loans management performed a sensitivity analysis. The Company evaluated the impact of the HPI used in calculating losses on the residential loan segment. As of March 31, 2024, for every 100 basis points increase in the HPI forecast reduces reserves by approximately \$200 thousand and about 1 basis point to the reserve coverage ratio, everything else being constant. This sensitivity analysis provides a hypothetical result to assess the sensitivity of the ACL and does not represent a change in management's judgement.

As of March 31, 2024, we stress tested two qualitative factors in our commercial real estate loan pool, as it's the largest segment in our portfolio. We evaluated the impact of a change in the qualitative factors from no risk to maximum loss measure the sensitivity of the qualitative factors. The change from no risk to high risk resulted in \$1.1 million or 36.9%

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increase in the allowance for credit losses. This sensitivity analysis provides a hypothetical result to assess the sensitivity of the ACL and does not represent a change in management's judgement.

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

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
March 31, 2024:						
Allowance for credit losses:						
Individually evaluated	\$ 47	\$ -	\$ 77	\$ -	\$ -	\$ 124
Collectively evaluated	2,883	10,302	4,195	794	3,156	21,330
Balances, end of period	<u>\$ 2,930</u>	<u>\$ 10,302</u>	<u>\$ 4,272</u>	<u>\$ 794</u>	<u>\$ 3,156</u>	<u>\$ 21,454</u>
Loans:						
Individually evaluated	\$ 6,934	\$ -	\$ 805	\$ -	\$ -	\$ 7,739
Collectively evaluated	230,972	1,057,800	227,240	100,182	194,325	1,810,519
Balances, end of period	<u>\$ 237,906</u>	<u>\$ 1,057,800</u>	<u>\$ 228,045</u>	<u>\$ 100,182</u>	<u>\$ 194,325</u>	<u>\$ 1,818,258</u>
December 31, 2023:						
Allowance for credit losses:						
Individually evaluated	\$ 145	\$ -	\$ 128	\$ -	\$ -	\$ 273
Collectively evaluated	2,550	10,366	3,846	911	3,138	20,811
Balances, end of period	<u>\$ 2,695</u>	<u>\$ 10,366</u>	<u>\$ 3,974</u>	<u>\$ 911</u>	<u>\$ 3,138</u>	<u>\$ 21,084</u>
Loans:						
Individually evaluated	\$ 6,994	\$ -	\$ 1,668	\$ -	\$ -	\$ 8,662
Collectively evaluated	197,425	1,047,593	218,089	114,945	191,930	1,769,982
Balances, end of period	<u>\$ 204,419</u>	<u>\$ 1,047,593</u>	<u>\$ 219,757</u>	<u>\$ 114,945</u>	<u>\$ 191,930</u>	<u>\$ 1,778,644</u>

Credit Quality Indicators

The Company grades loans based on the estimated capability of the borrower to repay the contractual obligation of the loan agreement based on relevant information which may include: current financial information on the borrower, historical payment experience, credit documentation and other current economic trends. Internal credit risk grades are **periodically**.

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

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

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

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

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

Loss – Loans classified as loss are considered uncollectible.

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

	As of March 31,								
	2024						Term Loans by Origination		
	Year						Revolving Loans		
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total	
Residential real estate									
Pass	\$ 36,295	\$ 43,716	\$ 36,336	\$ 26,194	\$ 5,885	\$ 80,670	\$ 8,530	\$ 237,626	
Substandard	-	-	-	-	-	280	-	-	280
Total	<u>36,295</u>	<u>43,716</u>	<u>36,336</u>	<u>26,194</u>	<u>5,885</u>	<u>80,950</u>	<u>8,530</u>	<u>237,906</u>	
Commercial real estate									
Pass	28,702	148,575	329,451	181,818	102,597	255,713	4,773	1,051,629	
Substandard	-	-	-	5,479	692	-	-	-	6,171
Total	<u>28,702</u>	<u>148,575</u>	<u>329,451</u>	<u>187,297</u>	<u>103,289</u>	<u>255,713</u>	<u>4,773</u>	<u>1,057,800</u>	
Commercial and industrial									
Pass	13,812	96,054	36,806	32,129	5,794	15,762	26,117	226,474	
Substandard	-	-	-	319	-	1,252	-	-	1,571
Total	<u>13,812</u>	<u>96,054</u>	<u>36,806</u>	<u>32,448</u>	<u>5,794</u>	<u>17,014</u>	<u>26,117</u>	<u>228,045</u>	
Foreign banks									
Pass	34,864	65,318	-	-	-	-	-	-	100,182
Total	<u>34,864</u>	<u>65,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,182</u>
Consumer and others									
Pass	9,557	66,799	72,452	41,499	502	1,845	1,671	194,325	
Substandard	-	-	-	-	-	-	-	-	-
Total	<u>9,557</u>	<u>66,799</u>	<u>72,452</u>	<u>41,499</u>	<u>502</u>	<u>1,845</u>	<u>1,671</u>	<u>194,325</u>	
Total Loans									
Pass	123,230	420,462	475,045	281,640	114,778	353,990	41,091	1,810,236	
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	5,798	692	1,532	-	-	8,022
Doubtful	-	-	-	-	-	-	-	-	-
Total	<u>\$ 123,230</u>	<u>\$ 420,462</u>	<u>\$ 475,045</u>	<u>\$ 287,438</u>	<u>\$ 115,470</u>	<u>\$ 355,522</u>	<u>\$ 41,091</u>	<u>\$ 1,818,258</u>	

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

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Notes to the Consolidated Financial Statements - Unaudited**Loan Aging**

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

As of March 31, 2024	Accruing						Total Loans	
	Current	Past Due 30-89 Days	Past Due 90 Days or > and Still Accruing	Total Accruing		Non-Accrual		
				Accruing	Non-Accrual			
Residential real estate:								
Home equity line of credit and other family	\$ 548	\$ -	\$ -	\$ 548	\$ -	\$ 548		
Condominiums	183,825	6,022	-	189,847	-	189,847		
Single family residential	43,452	4,059	-	47,511	-	47,511		
	227,825	10,081	-	237,906	-	237,906		
Commercial real estate:								
Land and construction	21,100	-	-	21,100	-	21,100		
Multi-family residential	211,813	-	-	211,813	-	211,813		
Condo	56,072	1,918	-	57,990	-	57,990		
Commercial property	766,003	873	-	766,876	-	766,876		
Leasehold improvements	21	-	-	21	-	21		
	1,055,009	2,791	-	1,057,800	-	1,057,800		
Commercial and industrial								
Unsecured	208,590	60	-	208,650	456	209,106		
	18,495	444	-	18,939	-	18,939		
	227,085	504	-	227,589	456	228,045		
Foreign banks	100,182	-	-	100,182	-	100,182		
Consumer and other	194,325	-	-	194,325	-	194,325		
Total	\$ 1,804,426	\$ 13,376	\$ -	\$ 1,817,802	\$ 456	\$ 1,818,258		

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As of December 31, 2023	Accruing						Total Loans	
	Current	Past Due 30-89 Days	Past Due 90 Days or > and Still Accruing	Total Accruing	Non-Accrual			
D e s t r i t u t i o n a l r e s t a t e								
Home equity line of credit and other family	\$ 559	\$ -	\$ -	\$ 559	\$ -	\$ 559		
Multi-family residential	155,842	711	-	156,553	-	156,553		
Condominiums	43,572	3,735	-	47,307	-	47,307		
	199,973	4,446	-	204,419	-	204,419		
C o m m e r c i a l r e s t a t e								
Land and construction	33,710	-	-	33,710	-	33,710		
Multi-family residential	181,287	-	-	181,287	-	181,287		
Condo	58,106	-	-	58,106	-	58,106		
Commercial property	772,569	1,890	-	774,459	-	774,459		
Leasehold improvements	31	-	-	31	-	31		
Commercial and industrial	200,235	29	-	200,264	468	200,732		
Unsecured	19,025	-	-	19,025	-	19,025		
	219,260	29	-	219,289	468	219,757		
F o r e i n g b a n k s								
Foreign banks	114,945	-	-	114,945	-	114,945		
C o n s u m e r a n d o t h e r								
Consumer and other	191,930	-	-	191,930	-	191,930		
Total	<u>\$ 1,771,811</u>	<u>\$ 6,365</u>	<u>\$ -</u>	<u>\$ 1,778,176</u>	<u>\$ 468</u>	<u>\$ 1,778,644</u>		

Non-accrual Status

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

	March 31, 2024			
	Nonaccrual Loans With No Allowance	Nonaccrual Loans With Related Allowance	Total Nonaccruals	Loans Past Over 90 Days and Still Accruing
R e s i t u t i o n a l r e s t a t e	\$ -	\$ -	\$ -	\$ -
C o m m e r c i a l r e s t a t e	-	-	-	-
Commercial and industrial	-	456	456	-
Consumer and other	-	-	-	-
	<u>\$ -</u>	<u>\$ 456</u>	<u>\$ 456</u>	<u>\$ -</u>

	December 31, 2023			
	Nonaccrual Loans With No Allowance	Nonaccrual Loans With Related Allowance	Total Nonaccruals	Loans Past Over 90 Days and Still Accruing
R e s i t u t i o n a l r e s t a t e	\$ -	\$ -	\$ -	\$ -
C o m m e r c i a l r e s t a t e	-	-	-	-
Commercial and industrial	-	468	468	-
Consumer and other	-	-	-	-
	<u>\$ -</u>	<u>\$ 468</u>	<u>\$ 468</u>	<u>\$ -</u>

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Accrued interest receivable is excluded from the estimate of credit losses. There was no interest income recognized attributable to non-accrual loans outstanding during the three months ended March 31, 2024 and 2023. Interest income on these loans for the three months ended March 31, 2024 and 2023, would have been approximately \$9 thousand and \$2 thousand, respectively, had these loans performed in accordance with their original terms.

Collateral-Dependent Loans

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

The following table presents newly restructured loans, by type of modification, which occurred during the three months ended March 31, 2024 (in thousands):

	Recorded Investment Prior to Modification			Recorded Investment After Modification		
	Number of Loans	Combination Modifications	Total Modifications	Number of Loans	Combination Modifications	Total Modifications
Residential real estate	-	\$ -	\$ -	-	\$ -	\$ -
Commercial real estate	-	-	-	-	-	-
Commercial and industrial	1	468	468	1	468	468
Consumer and other	-	-	-	-	-	-
	1	\$ 468	\$ 468	1	\$ 468	\$ 468

The Company had no new modifications and one new modification to borrowers experiencing financial difficulties for the three months ended March 31, 2024. There were no existing loan modifications that subsequently defaulted during the three months ended March 31, 2024. The Company did not have new modifications to borrowers experiencing difficulties and no loan modifications that subsequently defaulted during the three months ended March 31, 2023.

4. INCOME TAXES

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

	Three Months Ended March	
	31, 2024	2023
Current:		
Federal	\$ -	\$ -
State	-	-
Total current	-	-
Deferred:		
Federal	1,114	1,472
State	312	409
Total deferred	1,426	1,881
Total tax expense	\$ 1,426	\$ 1,881

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Notes to the Consolidated Financial Statements - Unaudited

The actual income tax expense for the three months ended March 31, 2024 and 2023 differs from the expense for the periods (computed by applying the U.S. federal corporate tax rate of 21% for both 2024 and 2023 to income before provision for income taxes) as follows (in thousands):

	Three Months Ended March	
	31,2024	2023
Federal taxes at statutory rate	\$ 1,268	\$ 1,615
State income taxes, net of federal tax benefit	262	334
Bank owned life	(104)	(68)
Total tax expense	<u>\$ 1,426</u>	<u>\$ 1,881</u>

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

	March 31, 2024	December 31, 2023
Deferred tax assets:		
Operating assets	\$ 15,369	\$ 16,430
Allowance for credit losses	5,503	5,410
Unrealized losses on available for sale	2,707	2,895
Depreciable property	15,638	15,114
Equity compensation	716	630
Accruals	52	382
Other, net	11	10
Deferred tax assets:	<u>40,126</u>	<u>41,074</u>
Deferred tax liabilities:		
Deferred loan cost	(745)	(553)
Lease right of use	(2,707)	(2,895)
Deferred compensation	(140)	(180)
Other, net	(216)	(85)
Deferred tax liabilities	<u>(3,877)</u>	<u>(3,792)</u>
Net deferred tax assets	<u>\$ 36,249</u>	<u>\$ 37,282</u>

The Company has approximately \$56.8 million of federal and \$79.5 million of state net operating loss carryforwards expiring in various amounts between 2031 and 2036 and which are limited to offset, to the extent permitted, future taxable earnings of the Company.

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

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

For the three months ended March 31, 2024 and 2023, the Company did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. Additionally no interest or penalties were recorded as a result of tax uncertainties.

[Table of Contents](#)**USCB FINANCIAL HOLDINGS, INC.**
Notes to the Consolidated Financial Statements - Unaudited**5. OFF-BALANCE SHEET ARRANGEMENTS**

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

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

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

	March 31, 2024	December 31, 2023
Commitments to grant loans and unfunded lines of credit	\$ 99,224	\$ 85,117
Standby and commercial letters of credit	3,274	3,987
	<hr/> \$ 102,498	<hr/> \$ 89,104

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

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

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

6. DERIVATIVES

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

Interest Rate Swaps Designated as a Cash Flow Hedge

As of March 31, 2024, the Company had two interest rate swap agreements with a notional aggregate amount of \$50 million that were designated as cash flow hedges of certificates of deposit. The interest rate swap agreements have an average maturity of 2.13 years, the weighted average fixed-rate paid 0.59%, and with the weighted average 3-month compound SOFR being received.

As of December 31, 2023, the Company had two interest rate swap agreements with a notional aggregate amount of \$50 million that were designated as cash flow hedges of certificates of deposit. The interest rate swap agreements have an average maturity of 2.38 years, the weighted average fixed-rate paid 0.59%, with the weighted average 3-month compound SOFR being received.

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

Interest Rate Swaps Designated as Fair Value Hedge

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As of March 31, 2024, the Company had four interest rate swap agreements with a notional aggregate amount of \$ 200 million that were designated as fair value hedges on loans. The interest rate swap agreements have an average maturity of 1.98 years, the weighted average fixed-rate paid is 4.74%, with the weighted average 3-month compound SOFR received.

As of December 31, 2023, the Company had four interest rate swap agreements with a notional aggregate amount of \$200 million that were designated as fair value hedges on loans. The interest rate swap agreements have an average maturity of 2.3 years, the weighted average fixed-rate paid is 4.74%, with the weighted average 3-month compound SOFR being received.

The changes in fair value on these interest rate swaps are recorded in other assets or other liabilities corresponding recognition in the assets being hedged.

Interest Rate Swaps

The Company enters into interest rate swaps with its loan customers. The Company had 25 and 20 interest rate swaps with loan customers with an aggregate notional amount of \$5.8 million and \$6.5 million at March 31, 2024 and December 31, 2023, respectively. These interest rate swaps mature between 2025 and 2051. The Company entered into corresponding and offsetting derivatives with third parties. The fair value of liability on these derivatives corresponds to provide the counterparty with funds to be held as collateral which the Company reports as other assets under the Consolidated Balance Sheets. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

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

	Notional Amount	Collateral Amount	Balance Sheet Location	Fair Value	
				Asset	Liability
March 31, 2024:					
Derivatives designated as cash flow hedges:					
Interest rate swaps	\$ 50,000	\$ -	Other assets	\$ 852	\$ -
Derivatives designated as hedging instruments:					
Interest rate swaps	\$ 200,000	\$ -	Other liabilities	\$ -	\$ 1,005
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	\$ 65,768	\$ 1,344	Other assets/Other liabilities	\$ 4,941	\$ 4,941
December 31, 2023:					
Derivatives designated as cash flow hedges:					
Interest rate swaps	\$ 50,000	\$ -	Other assets	\$ 334	\$ -
Derivatives designated as fair value hedges:					
Interest rate swaps	\$ 200,000	\$ -	Other liabilities	\$ -	\$ 3,430
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	\$ 46,463	\$ 1,326	Other assets/Other liabilities	\$ 4,558	\$ 4,558

7. FAIR VALUE MEASUREMENTS**Determination of Fair Value**

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

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a

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change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market ~~depends~~ on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

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

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

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar ~~liabilities~~ in markets that are not active; or other inputs that are observable or can be ~~by observation~~ market data for substantially the full term of the asset or liability.

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

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

Items Measured at Fair Value on a Recurring Basis

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

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

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

	March 31, 2024				December 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities available for sale:								
U.S. Government Agency	\$ -	\$ 15,549	\$ -	\$ 15,549	\$ -	\$ 8,173	\$ -	\$ 8,173
Collateralized mortgage obligations	-	106,369	-	106,369	-	80,606	-	80,606
Mortgage-backed securities - residential	-	50,337	-	50,337	-	52,187	-	52,187
Mortgage-backed securities - nonresidential	-	41,702	-	41,702	-	42,764	-	42,764
Municipal securities	-	19,061	-	19,061	-	19,338	-	19,338
Bank subordinated debt	-	26,974	-	26,974	-	26,261	-	26,261
Total securities	-	259,992	-	259,992	-	229,329	-	229,329
Derivative assets	-	5,793	-	5,793	-	4,892	-	4,892
Total assets at fair value	\$ -	\$ 265,785	\$ -	\$ 265,785	\$ -	\$ 234,221	\$ -	\$ 234,221
Derivative liabilities at fair value	\$ -	\$ 5,946	\$ -	\$ 5,946	\$ -	\$ 7,988	\$ -	\$ 7,988
Total liabilities at fair value	\$ -	\$ 5,946	\$ -	\$ 5,946	\$ -	\$ 7,988	\$ -	\$ 7,988

Items Not Measured at Fair Value

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

	Carrying Amount	Fair Value Hierarchy			Fair Value Amount
		Level 1	Level 2	Level 3	
March 31, 2024:					
Financial Assets:					
Cash and due from banks	\$ 9,601	\$ 9,601	\$ -	\$ -	\$ 9,601
Interest-bearing deposits in banks	\$ 116,945	\$ 116,945	\$ -	\$ -	\$ 116,945
Investment securities held to maturity, net	\$ 173,038	\$ -	\$ 152,156	\$ -	\$ 152,156
Loans held for investment,	\$ 1,799,742	\$ -	\$ -	\$ 1,763,399	\$ 1,763,399
Accrued interest	\$ 11,579	\$ -	\$ 1,732	\$ 9,847	\$ 11,579
Financial Liabilities:					
Demand deposits	\$ 576,626	\$ 576,626	\$ -	\$ -	\$ 576,626
Money market and savings accounts	\$ 1,141,422	\$ 1,141,422	\$ -	\$ -	\$ 1,141,422
Interest-bearing checking deposits	\$ 57,839	\$ 57,839	\$ -	\$ -	\$ 57,839
FHLB Advances	\$ 326,907	\$ -	\$ -	\$ 325,215	\$ 325,215
FHLB Advances	\$ 162,000	\$ -	\$ 159,875	\$ -	\$ 159,875
Advances	\$ 2,477	\$ -	\$ 1,297	\$ 1,180	\$ 2,477
December 31, 2023:					
Financial Assets:					
Cash and due from banks	\$ 8,019	\$ 8,019	\$ -	\$ -	\$ 8,019
Interest-bearing deposits in banks	\$ 33,043	\$ 33,043	\$ -	\$ -	\$ 33,043
Investment securities held to maturity	\$ 174,974	\$ -	\$ 155,510	\$ -	\$ 155,510
Loans held for investment,	\$ 1,759,743	\$ -	\$ -	\$ 1,723,210	\$ 1,723,210
Accrued interest	\$ 10,688	\$ -	\$ 1,448	\$ 9,240	\$ 10,688
Financial Liabilities:					
Demand deposits	\$ 552,762	\$ 552,762	\$ -	\$ -	\$ 552,762
Money market and savings accounts	\$ 1,048,272	\$ 1,048,272	\$ -	\$ -	\$ 1,048,272
Interest-bearing checking deposits	\$ 47,702	\$ 47,702	\$ -	\$ -	\$ 47,702
FHLB Advances	\$ 288,403	\$ -	\$ -	\$ 287,104	\$ 287,104
FHLB Advances	\$ 183,000	\$ -	\$ 182,282	\$ -	\$ 182,282
Advances	\$ 1,372	\$ -	\$ 551	\$ 821	\$ 1,372
payable					

8. STOCKHOLDERS' EQUITY

Common Stock

In July 2021, the Bank completed the initial public offering of its Class A common stock, in which it issued and 4,600,000 shares of Class A common stock at a price of \$10.00 per share. The Bank received total net proceeds of \$40.0 million after deducting underwriting discounts and expenses.

In December 2021, the Company acquired all the issued and outstanding shares of the Class A common stock of the Bank, which at the time were the only issued and outstanding shares of the Bank's capital stock, in a share exchange (the "Reorganization") effected under the Florida Business Corporation Act. Each outstanding share of the Bank's Class A stock, par value \$1.00 per share, formerly held by its Shareholders was converted into and exchanged for one newly issued share of the Company's Class A common stock, par value \$0.00 per share, and the Bank became the Company's wholly owned subsidiary.

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

During the first quarter 2024, the Company issued 52,753 shares of Class A common stock to employees as restricted stock awards pursuant to the Company's 2015 equity incentive plan. During the first quarter 2023, the Company issued 18,627 shares of Class A common stock to employees and directors as restricted stock awards pursuant to the Company's 2015 equity incentive plan.

During the three months ended March 31, 2024, the Company repurchased 7,100 shares of Class A common stock at a weighted average price per share of \$ 11.15. The aggregate purchase price for these transactions was approximately \$ 79 thousand, including transaction costs. These repurchases were made pursuant to the Company's publicly ~~repurchase~~ program. As of March 31, 2024, 72,980 shares remained authorized for repurchase under this program. During the three months ended March 31, 2023, the Company repurchased 500,000 shares of Class A common stock at a weighted average price per share of \$11.74. The aggregate purchase price for these transactions was approximately \$9 million, including transaction costs.

See Note 11, Subsequent Events, for information regarding the new share repurchase program declared in April 2024.

Shares of the Company's Class A common stock issued and outstanding as of March 31, 2024 and December 31, 2023 were 19,650,463 and 19,575,435, respectively.

Dividends

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

On January 29, 2024, the Company announced that its Board of Directors approved a cash dividend program. quarterly dividend for the first quarter of 2024 was \$0.05 per share of Class A common stock, paid on March 5, 2024, to stockholders of record as of the close of business on February 15, 2024. Total amount paid to shareholders in dividends on February 15, 2024 was \$1.0 million. No dividends were declared by the Board for the stockholders for the quarter ended March 31, 2023.

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

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The following table details the dividends declared and paid by the Company in the three months ended March 31, 2024:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Dividend Amount
January 19, 2024	February 15, 2024	March 5, 2024	\$ 0.05	\$ 4.612 million

The Company and the Bank exceeded all regulatory capital requirements and remained above "well-capitalized" of March 31, 2024 and December 31, 2023. At March 31, 2024, the total risk-based capital ratios Company and the Bank were 12.98% and 12.89%, respectively.

9. EARNINGS PER SHARE

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

The following table reflects the calculation of net income available to common shareholders for the three months ended March 31, 2024 and 2023 (in thousands):

	Three Months Ended March	
	31, 2024	2023
Net income available to common shareholders	\$ 4,612	\$ 5,809
	\$ 4,612	\$ 5,809

The following table reflects the calculation of basic and diluted earnings per common share class for the three months ended March 31, 2024 and 2023 (in thousands, except per share amounts):

	Three Months Ended March	
	31, 2024	2023
	Class A	Class A
Basic EPS		
Numerator:		
Net income available to common shares	\$ 4,612	\$ 5,809
Denominator:		
Weighted average shares outstanding	19,633,330	19,855,409
Earnings per share, basic	\$ 0.23	\$ 0.29
Diluted EPS		
Numerator:		
Net income available to common shareholders	\$ 4,612	\$ 5,809
Denominator:		
Weighted average shares outstanding for basic	19,633,330	19,855,409
EPS Dilutive effects of assumed exercises of stock options	64,928	85,197
Weighted avg. shares including dilutive potential common shares	19,698,258	19,940,606
Earnings per share, diluted	\$ 0.23	\$ 0.29
Anti-dilutive stock options excluded from diluted EPS		
502,500		
572,500		

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

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10. LOSS CONTINGENCIES

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

11. SUBSEQUENT EVENTS

Dividends

On April 23, 2024, the Company announced that its Board of Directors declared its second quarterly cash dividend. The quarterly dividend for the second quarter of 2024 was \$0.05 per share of Class A common stock and will be paid on June 5, 2024, to stockholders of record as of the close of business on May 15, 2024.

Share Repurchase Program

On April 22, 2024, the Board of Directors approved a new share repurchase program of up to 500,000 shares of Class A common stock or approximately 2.5% of the Company's issued and outstanding shares of common stock. Under the repurchase program, the Company may purchase shares of Class A common stock on a discretionary basis from time to time through open market repurchases, privately negotiated transactions, or other means. The repurchase program has no expiration date and may be modified, suspended, or terminated at any time. The new repurchase program will commence upon completion of the Company's current repurchase program. Repurchases under this new program will be funded from the Company's existing cash and cash equivalents or future cash flow. As of April 22, 520,980 shares remain authorized for repurchase under the Company's share repurchase programs.

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

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

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

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

Forward-Looking Statements

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

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

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

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that results will not differ materially from expectations. Therefore, you are cautioned not to place undue reliance on any forward-looking statements. Further, forward-looking statements included in this quarterly report on Form 10-Q are made only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

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unless required to do so under the federal securities laws. You should also review the risk factors described in the Annual Report on Form 10-K and in the reports the Company filed or will file with the SEC.

Overview

The Company reported net income of \$4.6 million or \$0.23 per diluted share of common stock for the three months ended March 31, 2024 compared to \$5.8 million or \$0.29 per diluted share of common stock for the three months ended March 31, 2023.

On January 29, 2024, the Company's Board of Directors declared a cash dividend of \$0.05 per share of the Company's Class A common stock. The Dividend was declared in conjunction with the adoption of a cash dividend program. ~~Dividend~~ was paid on March 5, 2024 to shareholders of record at the close of business on February 15, 2023. The aggregate amount distributed in connection with this dividend was \$1.0 million. Additionally, the Company's Board of Directors declared a cash dividend of \$0.05 per share of the Company's Class A common stock on April 22, 2024. The dividend will be paid on June 5, 2024 to shareholders of record at the close of business on May 15, 2024.

7,100 shares of Class A common stock were repurchased at a weighted average price per share of \$11.15 during the first quarter 2024. These repurchases were made pursuant to the Company's publicly announced repurchase program. As of March 31, 2024, 72,980 shares remained authorized for repurchase under this program.

On April 22, 2024, the Board of Directors approved a new share repurchase program of up to 500,000 shares of Class A common stock or approximately 2.5% of the Company's issued and outstanding shares of common stock. Under the repurchase program, the Company may purchase shares of Class A common stock on a discretionary basis from time to time through open market repurchases, privately negotiated transactions, or other means. The repurchase program has no expiration date and may be modified, suspended, or terminated at any time. The new repurchase program will commence upon completion of the current repurchase program. Repurchases under the new program will be funded from the Company's existing cash and cash equivalents or future cash flow. As of April 22, 2024, 572,980 shares remain authorized for repurchase under the Company's share repurchase programs.

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

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

- Net interest income for the three months ended March 31, 2024 decreased \$839 thousand or 5.2% to \$15.2 million from \$16.0 billion for the quarter ended March 31, 2023.
- Net interest margin ("NIM") was 2.62% for the three months ended March 31, 2024 compared to 3.22% for the three months ended March 31, 2023.
- Total assets were \$2.5 billion at March 31, 2024, representing an increase of \$325.3 million or 15.0% from March 31, 2023 and an increase of \$150.0 million or 25.7% annualized from December 31, 2023.
- Total loans were \$1.8 billion at March 31, 2024, representing an increase of \$240.8 million or 15.2% from March 31, 2023 and an increase of \$40.4 million or 9.1% annualized from December 31, 2023.
- Total deposits were \$2.1 billion at March 31, 2024, representing an increase of \$272.3 million or 14.9% from March 31, 2023 and an increase of \$165.7 million or 34.4% annualized from December 31, 2023.
- Annualized return on average assets for the quarter ended March 31, 2024 was 0.76% compared to 1.11% for the quarter ended March 31, 2023.
- Annualized return on average stockholders' equity for the quarter ended March 31, 2024 was 9.61% compared to 12.85% for quarter ended March 31, 2023.
- The ACL to total loans was 1.18% at both March 31, 2024 and December 31, 2023.
- Non-performing loans to total loans was 0.03% at both March 31, 2024 and December 31, 2023.
- At March 31, 2024, the total risk-based capital ratios for the Company and the Bank were 12.98% and 12.89%, respectively.

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- Tangible book value per common share (a non-GAAP financial measurement) of \$9.92 as of March 31, 2024 was negatively affected by \$2.31 due to accumulated comprehensive loss of \$45.4 million at March 31, 2024. At March 31, 2023, tangible book value of \$9.37 per common share was negatively affected by \$2.14 due to \$42.1 million accumulated other comprehensive loss. See, "Reconciliation and Management Explanation for Non-GAAP Financial Measures" for a reconciliation of this non-GAAP financial measure.

Critical Accounting Policies and Estimates

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

Non-GAAP Financial Measures

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

Segment Reporting

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

Results of Operations

General

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

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Consolidated Balance Sheets: assets		
Total loans ⁽¹⁾	\$ 1,821,196	\$ 1,780,827
Total deposits	\$ 2,102,794	\$ 1,937,139
Total stockholders' equity	\$ 195,011	\$ 191,968

(1) Loan amounts include deferred costs.

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	Three Months Ended March	
	31, 2024	2023
Consolidated Statements of Operations:		
Income before provision for credit losses	\$ 15,158	\$ 15,997
Non-interest income	\$ 2,464	\$ 2,070
Total non-interest income	\$ 11,174	\$ 10,176
Non-interest expense	\$ 4,612	\$ 5,809
Profitability:		
Efficiency	63.41%	56.32%
Net interest margin	2.62%	3.22%

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

Three months ended March 31, 2024 compared to the three months ended March 31, 2023

During the three months ended March 31, 2024, total interest income increased \$8.5 million compared to the same period in 2023. However, this positive trend was offset by a \$9.3 million increase in total interest expense due to higher weighted average deposit costs and borrowing costs. Consequently, net income decreased \$1.2 million to \$4.6 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023.

Net Interest Income

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

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

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

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

	Three Months Ended March 31,					
	2024			2023		
	Average ⁽¹⁾ Balance	Interest	Yield/Rate ⁽²⁾	Average ⁽¹⁾ Balance	Interest	Yield/Rate ⁽²⁾
Assets						
Interest-earning assets:						
Loans ⁽³⁾	\$ 1,781,528	\$ 26,643	6.01%	\$ 1,547,393	\$ 19,711	5.17%
Investment securities ⁽⁴⁾	419,989	2,811	2.69%	421,717	2,286	2.20%
Other interest-earning assets	<u>125,244</u>	<u>1,433</u>	4.60%	<u>43,084</u>	<u>382</u>	3.60%
Total interest-earning assets	2,326,761	30,887	5.34%	2,012,194	22,379	4.51%
Non-interest-earning assets	<u>109,342</u>			<u>108,024</u>		
Total assets	<u>\$ 2,436,103</u>			<u>\$ 2,120,218</u>		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 53,344	369	2.78%	\$ 58,087	43	0.30%
Saving and money market deposits	1,097,575	10,394	3.81%	897,061	4,785	2.16%
Time deposits	<u>322,912</u>	<u>3,294</u>	4.10%	<u>224,730</u>	<u>1,057</u>	1.91%
Total interest-bearing deposits	1,473,831	14,057	3.84%	1,179,878	5,885	2.02%
FHLB advances and other borrowings	<u>164,187</u>	<u>1,672</u>	4.10%	<u>61,600</u>	<u>497</u>	3.27%
Total interest-bearing liabilities	1,638,018	15,729	3.86%	1,241,478	6,382	2.08%
Non-interest-bearing demand deposits	574,760			664,369		
Other non-interest-bearing liabilities	<u>30,233</u>			<u>31,000</u>		
Total liabilities	2,243,011			1,936,847		
Stockholders' equity	<u>193,092</u>			<u>183,371</u>		
Total liabilities and stockholders' equity	<u>\$ 2,436,103</u>			<u>\$ 2,120,218</u>		
Net interest income		\$ 15,158			\$ 15,997	
Net interest spread ⁽⁵⁾			1.48%			2.43%
Net interest margin ⁽⁶⁾			2.62%			3.22%

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

(2) Annualized.

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

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

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

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

Three months ended March 31, 2024 compared to the three months ended March 31, 2023

Net interest income before the provision for credit losses was \$15.2 million for the three months ended March 31, 2024, a decrease of \$839 thousand or 5.2%, from \$16.0 million for the same period in 2023. The decrease was primarily due to the \$9.3 million increase in interest expense, which was a result to the prevailing market interest conditions which offset the increase in interest income.

Net interest margin was 2.62% for the quarter ended March 31, 2024 and 3.22% for the same period in 2023. The decrease in loan yields as well as yields on other interest-earning assets was offset by higher deposit and borrowing costs.

Provision for Credit Losses

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

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Three months ended March 31, 2024 compared to the three months ended March 31, 2023

The provision for credit loss was \$410 thousand for the three months ended March 31, 2024 compared to \$201 thousand for the same period in 2023. Growth in the loan portfolio was the primary driver of the increase in the provision expense during the three months ended March 31, 2024.

Non-Interest Income

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

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

	Three Months Ended March	
	31, 2024	2023
Service fees	\$ 1,651	\$ 1,205
Gain (loss) on sale of securities available for sale,	-	(21)
Gain on sale of loans held for sale,	67	347
Other non-interest income	746	539
Total non-interest income	\$ 2,464	\$ 2,070

Three months ended March 31, 2024 compared to the three months ended March 31, 2023

Non-interest income for the three months ended March 31, 2024 increased \$394 thousand or 19.0%, compared to the same period in 2023. This increase was primarily driven by growth in service fees from a larger deposit portfolio and an increase in wire and treasury management fees.

Non-Interest Expense

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

	Three Months Ended March	
	31, 2024	2023
Salaries and employee benefits	\$ 6,310	\$ 6,377
Occupancy	1,314	1,299
Regulatory assessment and fees	433	224
Consulting and legal	592	358
Network and information technology	507	478
Other operating	2,018	1,440
Total non-interest expense	\$ 11,174	\$ 10,176

Three months ended March 31, 2024 compared to the three months ended March 31, 2023

Non-interest expense for the three months ended March 31, 2024 increased \$998 thousand or 9.8%, compared to the same period in 2023. The increase was primarily driven by an increase in other operating expenses of \$578 thousand due to \$199 thousand increase in internal and external audit expense, \$70 thousand increase in miscellaneous expense, and \$97 thousand increase in force-placed insurance expense (this expense will eventually be reimbursed by customers). Additionally, consulting and legal fees increased \$234 thousand due to legal expenses and regulatory assessment and fees increased \$209 thousand mostly due to FDIC deposit insurance as our deposit portfolio grew.

Provision for Income Tax

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

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Three months ended March 31, 2024 compared to the three months ended March 31, 2023

Income tax expense for the quarter ended March 31, 2024 was \$1.4 million as compared to \$1.9 million for the same period in 2023. The effective tax rate for the three months ended March 31, 2024 was 23.6% compared to 24.5% for the same period in 2023.

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

Analysis of Financial Condition

Total assets at March 31, 2024 were \$2.49 billion, an increase of \$150.0 million, or 25.8% annualized, over total assets of \$2.34 billion at December 31, 2023. Total loans, net of unearned fees/cost, increased \$40.4 million, or 9.1% annualized, to \$1.82 billion at March 31, 2024 compared to \$1.78 billion at December 31, 2023. Total deposits increased by \$165.7 million, or 34.4% annualized, to \$2.10 billion at March 31, 2024 compared to \$1.94 billion December 31, 2023.

Investment Securities

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

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

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

When evaluating AFS debt securities under ASC Topic 326, the Company evaluates whether the decline in fair value is attributable to credit losses or other factors like interest rate risk, using both quantitative and qualitative analyses, including company performance analysis, review of credit ratings, remaining payment terms, prepayment speeds and analysis of macro-economic conditions. Each investment is expected to recover its unrealized loss position over its holding period as it approaches to maturity and the Company has the intent and ability to hold these securities to maturity until recovery. As a result of this evaluation, the Company concluded that no allowance was required on AFS securities as of March 31, 2024.

AFS and HTM investment securities increased \$28.7 million, or 28.6% annualized, to \$433.0 million at March 31, 2024 from \$404.3 million at December 31, 2023. Investment securities increased due to reinvestment of payments received and investment of excess in cash balances into high credit quality investments to increase the Company's profitability and modify the Company's balance sheet duration according to the ALM policy. As of March 31, 2024, investment securities with a market value of \$244.4 million were pledged to secure public deposits and the BTFP. The investment portfolio does not have any tax-exempt securities.

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

	March 31, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
U.S. Government Agency	\$ 17,168	\$ 15,549	\$ 9,664	\$ 8,173
Collateralized mortgage obligations	130,533	106,369	103,645	80,606
Mortgage-backed securities - residential	62,734	50,337	63,795	52,187
Mortgage-backed securities - commercial	48,182	41,702	49,212	42,764
Municipal securities	24,985	19,061	25,005	19,338
Bank subordinated debt securities	28,622	26,974	28,106	26,261
	\$ 312,224	\$ 259,992	\$ 279,427	\$ 229,329
Held-to-maturity:				
U.S. Government Agency	\$ 43,439	\$ 37,623	\$ 43,626	\$ 38,306
Collateralized mortgage obligations	61,465	53,131	62,735	54,752
Mortgage-backed securities - residential	43,383	38,613	43,784	39,599
Mortgage-backed securities - commercial	15,409	14,108	15,439	14,182
Corporate bonds	9,354	8,681	9,398	8,671
	\$ 173,050	\$ 152,156	\$ 174,982	\$ 155,510
Allowance for credit losses - securities held-to-maturity	(12)			
Securities held-to-maturity, net of allowance for credit losses	\$ 173,038			

The following table shows the weighted average yields, categorized by contractual maturity, for investment securities as of March 31, 2024 (in thousands, except ratios):

	After 1 year through After 5 years through								Total	
	Within 1 year		5 years		10 years		After 10 years			
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield		
Available-for-sale:										
U.S. Government	\$ -	0.00%	\$ -	0.00%	\$ 3,106	4.03%	\$ 14,062	3.66%	\$ 17,168 3.73%	
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	130,533	2.30%	130,533 2.30%	
MBS - residential	-	0.00%	-	0.00%	-	0.00%	62,734	1.87%	62,734 1.87%	
MBS - commercial	-	0.00%	-	0.00%	-	0.00%	48,182	3.35%	48,182 3.35%	
Municipal securities	-	0.00%	-	0.00%	20,733	1.72%	4,252	1.86%	24,985 1.74%	
Bank subordinated debt securities	-	0.00%	5,561	7.18%	21,272	5.14%	-	0.00%	26,834 5.57%	
Corporate bonds	-	0.00%	-	0.00%	1,788	6.41%	-	0.00%	1,788 6.41%	
	\$ -	\$ 5,561	\$ 46,899		\$ 259,763		\$ 312,224		2.71%	
Held-to-maturity:										
U.S. Government	\$ -	0.00%	7,933	1.02%	20,143	1.45%	15,363	2.03%	\$ 43,439 1.58%	
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	61,465	1.66%	61,465 1.66%	
MBS - residential	-	0.00%	4,410	1.85%	5,908	1.74%	33,066	2.41%	43,383 2.27%	
MBS - commercial	-	0.00%	3,069	1.62%	-	0.00%	12,340	2.62%	15,409 2.42%	
Corporate bonds	-	0.00%	9,354	2.80%	-	0.00%	-	0.00%	9,354 2.80%	
	\$ -	\$ 24,766	\$ 26,050		\$ 122,234		\$ 173,050		1.92%	

Loans

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

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

	March 31, 2024		December 31, 2023	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	\$ 237,906	13.1 %	\$ 204,419	11.5 %
Commercial Real Estate	1,057,800	58.2 %	1,047,593	58.8 %
Commercial and Industrial	228,045	12.5 %	219,757	12.4 %
Foreign	100,182	5.5 %	114,945	6.5 %
Banker and Other	194,325	10.7 %	191,930	10.8 %
Total gross loans	1,818,258	100.0 %	1,778,644	100.0 %
Plus: Deferred costs	2,938		2,183	
Total loans net of deferred fees (costs)	1,821,196		1,780,827	
Less: Allowance for credit losses	21,454		21,084	
Total net loans	\$ 1,799,742		\$ 1,759,743	

Total loans, net of unearned cost, increased by \$40.4 million, or 9.1% annualized to \$1.82 billion, at March 31, 2024 compared to December 31, 2023. The residential real estate loan segment had the most significant growth.

Our loan portfolio continues to grow, with commercial real estate lending as the primary focus which approximately 58% of the total gross loan portfolio as of March 31, 2024. Our loan growth strategy since inception has been reflective of the market in which we operate and of our strategic plan as approved by the Board.

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

From a liquidity perspective, our loan portfolio provides us with additional liquidity due to repayments or unexpected prepayments. The following table shows maturities and sensitivity to interest rate changes for the loan portfolio at March 31, 2024 (in thousands):

	Due in 1 year or less	Due in 1 to 5 years	Due after 5 to 15 years	Due after 15 years	Total
Residential Real Estate	\$ 5,006	\$ 42,647	\$ 74,664	\$ 115,589	\$ 237,906
Commercial Real Estate	105,181	200,845	745,043	6,731	1,057,800
Commercial and Industrial	13,458	47,095	122,945	44,547	228,045
Foreign	100,182	-	-	-	100,182
Banker and Other	1,623	3,511	10,711	178,480	194,325
Total gross loans	\$ 225,450	\$ 294,098	\$ 953,363	\$ 345,347	\$ 1,818,258
Interest rate sensitivity:					
Fixed interest	\$ 180,206	\$ 161,021	\$ 187,337	\$ 237,934	\$ 766,498
Floating or adjustable rates	45,244	133,077	766,026	107,413	1,051,760
Total gross loans	\$ 225,450	\$ 294,098	\$ 953,363	\$ 345,347	\$ 1,818,258

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

As of March 31, 2024, approximately 58% of the loans have adjustable/variable rates and 42% of the loans have fixed rates. The adjustable/variable rate loans re-price to different benchmarks and tenors in different periods of time. By contractual characteristics, there are no material concentrations on anniversary repricing. Additionally, it is important to note that most of our loans have interest rate floors. This embedded option protects the Company from a decrease in interest rates below the floor and positions us to gain in the scenario of higher interest rates.

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Asset Quality

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

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

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

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

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

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

Loss – Loans classified as loss are considered uncollectible.

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

	March 31, 2024				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	\$ 237,626	\$ -	\$ 280	\$ -	\$ 237,906
Commercial Real Estate	1,051,629	-	6,171	-	1,057,800
Commercial and Industrial	226,474	-	1,571	-	228,045
Foreign	100,182	-	-	-	100,182
Consumer and Other	194,325	-	-	-	194,325
	<u>\$ 1,810,236</u>	<u>\$ -</u>	<u>\$ 8,022</u>	<u>\$ -</u>	<u>\$ 1,818,258</u>

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

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Non-Performing Assets

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

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Total non-performing loans	\$ 456	\$ 468
Other real estate owned	-	-
Total non-performing assets	\$ 456	\$ 468
Asset quality ratios:		
Allowance for credit losses to total loans	1.18%	1.18%
Allowance for credit losses to non-performing loans	4,705%	4,505%
Non-performing loans to total loans	0.03%	0.03%

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

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

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

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

Allowance for Credit Losses

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

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

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended March 31, 2024						
Beginning balance	\$ 2,695	\$ 10,366	\$ 3,974	\$ 911	\$ 3,138	\$ 21,084
Provision for credit ⁽¹⁾	235	(64)	288	(117)	21	363
Recoveries	-	-	10	-	2	12
Charge-offs	-	-	-	-	(5)	(5)
Ending Balance	<u>\$ 2,930</u>	<u>\$ 10,302</u>	<u>\$ 4,272</u>	<u>\$ 794</u>	<u>\$ 3,156</u>	<u>\$ 21,454</u>
Average loans	\$ 217,117	\$ 1,048,870	\$ 221,804	\$ 102,150	\$ 191,587	\$ 1,781,528
Net charge-offs to average loans	0.00%	0.00%	(0.02)%	0.00%	0.01%	0.00%

(1) Provision for credit losses excludes a \$43 thousand charge due to unfunded commitments included in other liabilities and a \$4 thousand charge related to investment securities held to maturity.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended March 31, 2023						
Beginning balance	\$ 1,352	\$ 10,143	\$ 4,163	\$ 720	\$ 1,109	\$ 17,487
Cumulative effect of adoption accounting principle ⁽¹⁾	1,238	1,105	(2,158)	23	858	1,066
Provision for credit ⁽²⁾	221	(795)	318	29	512	285
Recoveries	8	-	44	-	2	54
Charge-offs	-	-	-	-	(5)	(5)
Ending Balance	<u>\$ 2,819</u>	<u>\$ 10,453</u>	<u>\$ 2,367</u>	<u>\$ 772</u>	<u>\$ 2,476</u>	<u>\$ 18,887</u>
Average loans	\$ 194,355	\$ 964,682	\$ 158,509	\$ 89,020	\$ 140,826	\$ 1,547,392
Net charge-offs to average loans	(0.02)%	0.00%	(0.11)%	0.00%	0.01%	(0.01)%

(1) Impact of CECL adoption on January 1,

(2) Provision for credit losses excludes a \$84 thousand release due to unfunded commitments included in other liabilities

Bank-Owned Life Insurance

As of March 31, 2024, the combined cash surrender value of all bank-owned life insurance ("BOLI") policies was \$52.2 million. Changes in cash surrender value are recorded to non-interest income in the unaudited Consolidated Statements of Operations. The Company had BOLI policies with five insurance carriers. The Company is the beneficiary of these policies.

Deposits

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

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

	Three Months Ended March			
	2024 31,		2023	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest-bearing	\$ 574,760	0.00%	\$ 664,369	0.00%
Checking	53,344	2.78%	58,087	0.30%
Money market and savings deposits	1,097,575	3.81%	897,061	2.16%
Time deposits	322,912	4.10%	224,730	1.91%
Total	\$ 2,048,591	2.76%	\$ 1,844,247	1.29%

The Company has a granular deposit portfolio with outstanding balances comprised of 52% in commercial deposits, 32% personal deposits, 12% public funds (which are partially collateralized) and 4% brokered deposits. Brokered deposits balance at March 31, 2024 was \$90.1 million and there were no brokered deposits at March 31, 2023.

The Company has approximately 21 thousand deposit accounts with the majority in personal accounts, approximately 13 thousand or 62.9%. The estimated average account size of our deposit portfolio is approximately \$103 thousand as of March 31, 2024.

The uninsured deposits are estimated based on the FDIC deposit insurance limit of \$250 thousand for all accounts the Company per account holder. The total estimated amount of uninsured deposits was 55% at March 31, 2024 and 56% at March 31, 2023. The Company offers Insured Cash Sweep ("ICS") and Certificate Deposit Account Registry Service ("CDARS") deposit products to fully insure our clients. The deposit balance in ICS/CDARS at quarter end was \$144.1 million and \$35.7 million at March 31, 2023.

The following table shows scheduled maturities of uninsured time deposits as of March 31, 2024 (in thousands):

	March 31, 2024
Three months or	\$ 23,229
Less than three through six	17,772
Over six through twelve	41,918
Over twelve months	2,393
	\$ 85,312

Other Liabilities

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

As of March 31, 2024 escrow balances totaled \$7.8 million compared to \$2.3 million at December 31, 2023.

Borrowings

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

As of March 31, 2024, we had \$82.0 million of fixed-rate advances outstanding from the FHLB with a weighted average rate of 3.19%. Maturity dates for the advances range between 2024 to 2028 as detailed in the table below.

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The following table presents the FHLB advances as of March 31, 2024 (in thousands):

Interest Rate	Type of Rate	Maturity Date	Amount
1.04%	Fixed	July 30, 2024	5,000
2.05%	Fixed	March 27, 2025	10,000
1.07%	Fixed	July 18, 2025	6,000
3.76%	Fixed	January 24, 2028	11,000
3.77%	Fixed	April 25, 2028	50,000
			\$ 82,000

As of March 31, 2024, we had a \$80.0 million fixed-rate loan outstanding from the FRB issued pursuant to the Bank Term Funding Program with an interest rate of 4.81% and a maturity date of January 10, 2025.

We have also established Federal Funds lines of credit with our upstream correspondent banks and the FRB Atlanta Discount Window to manage temporary fluctuations in our daily cash balances. As of March 31, 2024, there were \$0 outstanding balances with any of these liquidity sources.

Off-Balance Sheet Arrangements

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

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

	March 31, 2024	December 31, 2023
Commitments to grant loans and unfunded lines of credit	\$ 99,224	\$ 85,117
Standby and commercial letters of credit	3,274	3,987
	\$ 102,498	\$ 89,104

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

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

Letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. In the event of nonperformance by the client in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. If the commitment is funded, we would be entitled to seek recovery from the client from the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash or marketable securities.

Asset and Liability Management Committee

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

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

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

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

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

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

Market and Interest Rate Risk Management

According to our ALCO model, as of March 31, 2024, we had an asset sensitive balance sheet both for year one and year two modeling, using the static modeling. Asset sensitivity indicates that our assets generally reprice faster than our liabilities, which results in a favorable impact to net interest income when market interest rates increase. Liability sensitivity indicates that our liabilities generally reprice faster than our assets, which results in a favorable impact to net interest income when market interest rates decrease. Many assumptions are used to calculate the impact of interest rate variations on our net interest income, such as asset prepayment speeds, non-maturity deposit price sensitivity, pricing correlations, deposit truncations and decay rates, and key interest rate drivers.

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

According to our model, as of March 31, 2024, our balance sheet is asset sensitive for both year one and year two under interest static rate scenarios (an increase or decrease of 400 basis points). This means that if rates increase, the NIM will increase and if rates decrease, the NIM will decrease. Additionally, utilizing an EVE approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. According to our balance sheet composition, and as expected, our model stipulates that an increase in interest rates will have a negative impact on the EVE and lower rates, a positive impact. Results and analysis are presented quarterly to the ALCO, and strategies are reviewed and refined.

Liquidity

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

Liquidity risk is the risk that we will be unable to meet our short-term and long-term obligations as they become due because of an inability to liquidate assets or obtain relatively adequate funding. The Company's obligations, and the funding

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sources used to meet them, depend significantly on our business mix, balance sheet structure and composition, **quality** of our assets and the cash flow profiles of our on- and off-balance sheet obligations.

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

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

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

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

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

Capital Adequacy

As of March 31, 2024, the Bank was well capitalized under the FDIC's prompt corrective action framework. We also follow the capital conservation buffer framework, and as of March 31, 2024, we exceeded the capital conservation buffer in all capital ratios, according to our actual ratios. The following table presents the capital ratios for the Bank at the **date** (in thousands, except ratios).

	Actual		Minimum Capital Requirements		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2024						
Total risk-based capital	\$ 240,055	12.89 %	\$ 148,997	8.00 %	\$ 186,247	10.00 %
Tier 1 risk-based capital	\$ 218,174	11.71 %	\$ 111,748	6.00 %	\$ 148,997	8.00 %
Common equity tier 1 capital	\$ 218,174	11.71 %	\$ 83,811	4.50 %	\$ 121,060	6.50 %
Leverage ratio	\$ 218,174	8.84 %	\$ 98,695	4.00 %	\$ 123,368	5.00 %
December 31, 2023:						
Total risk-based capital	\$ 233,109	12.65 %	\$ 147,432	8.00 %	\$ 184,290	10.00 %
Tier 1 risk-based capital	\$ 211,645	11.48 %	\$ 110,574	6.00 %	\$ 147,432	8.00 %
Common equity tier 1 capital	\$ 211,645	11.48 %	\$ 82,931	4.50 %	\$ 119,789	6.50 %
Leverage ratio	\$ 211,645	9.17 %	\$ 92,328	4.00 %	\$ 115,410	5.00 %

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

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Impact of Inflation

Our Consolidated Financial Statements and related notes have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Periods of high inflation are often accompanied by relatively higher interest rates, and periods of low inflation are accompanied by relatively lower interest rates. As market interest rates rise or fall in relation to the rates earned on loans and investments, the value of these assets decreases or increases respectively. Inflation can also impact core non-interest expenses with delivering the Company's services.

Recently Issued Accounting Pronouncements

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

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Reconciliation and Management Explanation of Non -GAAP Financial Measures

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

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

	As of or For the Three Months				
	3/31/2024	12/31/2023	9/30/2023	6/30/2023	3/31/2023
Pre-tax pre-provision ("PTPP") income⁽¹⁾					
Net income	\$ 4,612	\$ 2,721	\$ 3,819	\$ 4,196	\$ 5,809
Plus: Provision for income taxes	1,426	787	1,250	1,333	1,881
Plus: Provision for credit losses	410	1,475	653	38	201
PTPP income	\$ 6,448	\$ 4,983	\$ 5,722	\$ 5,567	\$ 7,891
PTPP return on average assets⁽¹⁾					
PTPP income	\$ 6,448	\$ 4,983	\$ 5,722	\$ 5,567	\$ 7,891
Average assets	\$ 2,436,103	\$ 2,268,811	\$ 2,250,258	\$ 2,183,542	\$ 2,120,218
PTPP return on average assets ⁽²⁾	1.06%	0.87%	1.01%	1.02%	1.51%
Operating net income⁽¹⁾					
Net income	\$ 4,612	\$ 2,721	\$ 3,819	\$ 4,196	\$ 5,809
Less: Net gains (losses) on sale of securities	-	(883)	(955)	-	(21)
Less: Tax effect on sale of securities	-	224	242	-	5
Operating net income	\$ 4,612	\$ 3,380	\$ 4,532	\$ 4,196	\$ 5,825
Operating PTPP income⁽¹⁾					
PTPP income	\$ 6,448	\$ 4,983	\$ 5,722	\$ 5,567	\$ 7,891
Less: Net gains (losses) on sale of securities	-	(883)	(955)	-	(21)
Operating PTPP income	\$ 6,448	\$ 5,866	\$ 6,677	\$ 5,567	\$ 7,912
Operating PTPP return on average assets⁽¹⁾					
Operating PTPP income	\$ 6,448	\$ 5,866	\$ 6,677	\$ 5,567	\$ 7,912
Average assets	\$ 2,436,103	\$ 2,268,811	\$ 2,250,258	\$ 2,183,542	\$ 2,120,218
Operating PTPP return on average assets ⁽²⁾	1.06%	1.03%	1.18%	1.02%	1.51%
Operating return on average assets⁽¹⁾					
Operating net income	\$ 4,612	\$ 3,380	\$ 4,532	\$ 4,196	\$ 5,825
Average assets	\$ 2,436,103	\$ 2,268,811	\$ 2,250,258	\$ 2,183,542	\$ 2,120,218
Operating return on average assets ⁽²⁾	0.76%	0.59%	0.80%	0.77%	1.11%
Operating return on average equity⁽¹⁾					
Operating net income	\$ 4,612	\$ 3,380	\$ 4,532	\$ 4,196	\$ 5,825
Average equity	\$ 193,092	\$ 183,629	\$ 184,901	\$ 184,238	\$ 183,371
Operating return on average equity ⁽²⁾	9.61%	7.30%	9.72%	9.13%	12.88%
Operating revenue⁽¹⁾					
Interest income	\$ 15,158	\$ 14,376	\$ 14,022	\$ 14,173	\$ 15,997
Plus: Non-interest income	2,464	1,326	2,161	1,846	2,070
Less: Net gains (losses) on sale of securities	-	(883)	(955)	-	(21)
Operating revenue	\$ 17,622	\$ 16,585	\$ 17,138	\$ 16,019	\$ 18,088
Operating Efficiency Ratio⁽¹⁾					
Total non-interest expense	\$ 11,174	\$ 10,719	\$ 10,461	\$ 10,452	\$ 10,176
Operating revenue	\$ 17,622	\$ 16,585	\$ 17,138	\$ 16,019	\$ 18,088
Operating efficiency ratio	63.41%	64.63%	61.04%	65.25%	56.26%

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

(2) Annualized.

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

	As of or For the Three Months				
	3/31/2024	12/31/2023	9/30/2023	6/30/2023	3/31/2023
Tangible book value per common share (at period-end):					
Total stockholders' equity	\$ 195,011	\$ 191,968	\$ 182,884	\$ 183,685	\$ 183,858
Less: Intangible assets	-	-	-	-	-
Tangible stockholders' equity	\$ 195,011	\$ 191,968	\$ 182,884	\$ 183,685	\$ 183,858
Total shares issued and outstanding (at period-end):					
Total common shares issued and outstanding	19,650,463	19,575,435	19,542,290	19,544,777	19,622,380
Tangible book value per common share	\$ 9.92	\$ 9.81	\$ 9.36	\$ 9.40	\$ 9.37
Operating diluted net income per common share:					
Operating net income	\$ 4,612	\$ 3,380	\$ 4,532	\$ 4,196	\$ 5,825
Total weighted average diluted shares of common stock	19,698,258	19,573,350	19,611,897	19,639,682	19,940,606
Operating diluted net income per common share:	\$ 0.23	\$ 0.17	\$ 0.23	\$ 0.21	\$ 0.29
Tangible Common Equity/Tangible Assets⁽¹⁾					
Tangible stockholders' equity	\$ 195,011	\$ 191,968	\$ 182,884	\$ 183,685	\$ 183,858
Tangible assets	\$ 2,489,142	\$ 2,339,093	\$ 2,244,602	\$ 2,225,914	\$ 2,163,821
Tangible Common Equity/Tangible Assets	7.83%	8.21%	8.15%	8.25%	8.50%

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

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2024. On that evaluation, management believes that, as of the end of the period covered by this Form 10-Q, the Company's disclosure controls and procedures were effective to collect, process, and disclose the information required to be disclosed in the reports filed or submitted under the Exchange Act within the required time periods.

Changes in Internal Control Over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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PART II

Item 1. Legal Proceedings

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

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

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

On May 1, 2024, the Plaintiffs filed in the Thirds District Court of Appeal for the State of Florida (the "Appellate Court") an appeal, appealing the issuance of the Order and seeking a reversal of the Order. The Plaintiffs claim the Court erred by concluding (i) the Exchange Transaction was not ultra vires, and (ii) that the Legacy Shareholders (which includes ~~Plaintiffs~~) lacked direct standing.

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

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

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

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

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Item 1A. Risk Factors

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

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

(a) None.

(b) Not applicable.

(c) The Company's repurchases of equity securities for the quarter ended March 31, 2024 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid	Total Number of Shares Repurchased Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Be Purchased Under Plans or Programs (1)
January 1 - 31, 2024	-	\$ -	-	80,080
February 1 - 29, 2024	-	\$ -	-	80,080
March 1 - 31, 2024	7,100	\$ 11.15	7,100	72,980
	7,100	\$ 11.15	7,100	

(1) On January 24, 2022 the Company announced its initial stock repurchase program to repurchase up to 750,000 shares of Class A common stock approximately 3.75% of the Company's then outstanding shares of common stock.

Item 3. Defaults Upon Senior Securities

(a) Not applicable
(b) Not applicable

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Not applicable
(b) Not applicable
(c) During the three months ended March 31, 2024, none of the Company's directors or Section 16 reporting officers entered into any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in 408 of the SEC's Regulation S-K).

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Item 6. Exhibits

Exhibit	Description of
No. 2.1	Exhibit and Plan of Share Exchange, dated December 27, 2021, by and between U.S. Century Bank and USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30,
3.1	Articles of Incorporation, as amended, of USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 (File No. 001-41196) filed with the Securities and Exchange Commission on August 11,
3.2	Amended and Restated Bylaws of USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on July 26,
4.1	2023 Letter Agreement, dated December 30, 2021, between USCB Financial Holdings, Inc., U.S. Century Bank, Priam Capital Fund II, L.P., Patriot Financial Partners II, L.P., and Patriot Financial Partners Parallel II, L.P. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30,
4.2	Registration Rights Agreement, dated March 17, 2015, between U.S. Century Bank, Priam Capital Fund II, L.P., Patriot Financial Partners II, L.P., Patriot Financial Partners Parallel II, L.P., and certain other shareholders of U.S. Century Bank (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30,
4.3	Assignment and Assumption of Agreement, dated December 30, 2021, between U.S. Century Bank and USCB Financial, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30,
4.4	Description of USCB Financial Holdings, Inc.'s securities (incorporated by reference to Exhibit 4.4 to the Registrant's Report on Form 10-K (File No. 001-41196) filed with the Securities and Exchange Commission on March 22,
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as filed with the Securities and Exchange Commission on December 30, 2023. *
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as filed with the Securities and Exchange Commission on December 30, 2023. *
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 639A, as filed with the Securities and Exchange Commission on December 30, 2023. **
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 639A, as filed with the Securities and Exchange Commission on December 30, 2023. **
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 2024 formatted in Inline XBRL: (i) Consolidated Balance Sheets (audited), (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (audited), (iv) Consolidated Statements of Changes in Stockholders' Equity (audited), (v) Consolidated Statements of Cash Flows (audited), (vi) Notes to Consolidated Statements (audited).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished
herby.

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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.

USCB FINANCIAL HOLDINGS, INC.
(Registrant)

Signature	Title	Date
<u>/s/ Luis de la Aguilera</u> Luis de la Aguilera	Chairman, President and Chief Executive Officer (Principal Executive Officer)	May 10, 2024
<u>/s/ Robert Anderson</u> Robert Anderson	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 10, 2024

Exhibit 31.1

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

I, Luis de la Aguilera, certify that:

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

Exhibit 31.2

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

I, Robert Anderson, certify that:

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

Exhibit 32.1

**Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes -Oxley Act of 2002**

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

ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Luis de

Ia Aguilera, as President and Chief Executive Officer of the Company, certify, to the best of my knowledge and
pursuant to 18

U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes -Oxley Act of 2002, that:

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

/s/ Luis de la Aguilera

Luis de la Aguilera

Chairman, President and Chief Executive Officer

Date: May 10, 2024

Exhibit 32.2

**Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes -Oxley Act of 2002**

In connection with the Quarterly Report of USCB Financial Holdings, Inc. (the "Company") on Form 10-Q
quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Re
I, Robert

Anderson, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C.
§1350, as

adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Robert Anderson

Robert Anderson

Chief Financial Officer

Date: May 10, 2024

