UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from _____to_____

Commission File Number: 001-41196

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

Florida	**87-4070846**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of July 14, 2023, the registrant had 19,544,777 shares of Class A common stock outstanding.

FORM 10-Q
June 30, 2023

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PART I
Item 1. Financial Statements

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

	June 30, 2023	December 31, 2022
ASSETS:		
Cash and due from banks	$ 7,873	$ 6,605
Interest-bearing deposits in banks	79,407	47,563
Total cash and cash equivalents	87,280	54,168
Investment securities held to maturity, net of allowance for credit losses of $19 and $0, respectively (fair value $199,329 and $169,088, respectively)	220,956	188,699
Investment securities available for sale, at fair value	218,442	230,140
Federal Home Loan Bank stock, at cost	4,741	2,882
Loans held for investment, net of allowance of $18,815 and $17,487, respectively	1,577,144	1,489,851
Accrued interest receivable	8,029	7,546
Premises and equipment, net	5,025	5,263
Bank owned life insurance	43,319	42,781
Deferred tax assets, net	40,014	42,360
Lease right-of-use asset	12,909	14,395
Other assets	8,055	7,749
Total assets	$ 2,225,914	$ 2,085,834
LIABILITIES:		
Deposits:		
Demand deposits	$ 572,360	$ 629,776
Money market and savings accounts	994,429	915,853
Interest-bearing checking	59,501	66,675
Time deposits	295,011	216,977
Total deposits	1,921,301	1,829,281
Federal Home Loan Bank advances	87,000	46,000
Lease liability	12,909	14,395
Accrued interest and other liabilities	21,019	13,730
Total liabilities	2,042,229	1,903,406
Commitments and contingencies (See Notes 5 and 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock - Class C; $1.00 par value; $1,000 per share liquidation preference; 52,748 shares authorized; 0 and 0 issued and outstanding as of June 30, 2023 and December 31, 2022	-	-
Preferred stock - Class D; $1.00 par value; $5.00 per share liquidation preference; 12,309,480 shares authorized; 0 and 0 issued and outstanding as of June 30, 2023 and December 31, 2022	-	-
Preferred stock - Class E; $1.00 par value; $1,000 per share liquidation preference; 3,185,024 shares authorized; 0 and 0 issued and outstanding as of June 30, 2023 and December 31, 2022	-	-
Common stock - Class A Voting; $1.00 par value; 45,000,000 shares authorized; 19,544,777 issued and outstanding as of June 30, 2023, 20,000,753 issued and outstanding as of December 31, 2022	19,545	20,001
Common stock - Class B Non-voting; $1.00 par value; 8,000,000 shares authorized; 0 and 0 issued and outstanding as of June 30, 2023 and December 31, 2022	-	-
Additional paid-in capital on common stock	305,547	311,282
Accumulated deficit	(95,088)	(104,104)
Accumulated other comprehensive loss	(46,319)	(44,751)
Total stockholders' equity	183,685	182,428
Total liabilities and stockholders' equity	$ 2,225,914	$ 2,085,834

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest income:				
Loans, including fees	$ 20,847	$ 14,053	$ 40,558	$ 27,035
Investment securities	2,382	2,510	4,668	4,839
Interest-bearing deposits in financial institutions	1,051	121	1,433	152
Total interest income	24,280	16,684	46,659	32,026
Interest expense:				
Interest-bearing checking	200	17	243	33
Money market and savings accounts	6,968	615	11,753	1,166
Time deposits	2,145	271	3,202	530
Federal Home Loan Bank advances and other borrowings	794	139	1,291	276
Total interest expense	10,107	1,042	16,489	2,005
Net interest income before provision for credit losses	14,173	15,642	30,170	30,021
Provision for credit losses	38	705	239	705
Net interest income after provision for credit losses	14,135	14,937	29,931	29,316
Non-interest income:				
Service fees	1,173	1,083	2,378	1,983
(Loss) gain on sale of securities available for sale, net	-	(3)	(21)	18
Gain on sale of loans held for sale, net	94	22	441	356
Loan settlement	-	-	-	161
Other non-interest income	579	515	1,118	1,044
Total non-interest income	1,846	1,617	3,916	3,562
Non-interest expense:				
Salaries and employee benefits	5,882	5,913	12,259	11,788
Occupancy	1,319	1,251	2,618	2,521
Regulatory assessment and fees	452	226	676	439
Consulting and legal fees	386	398	744	915
Network and information technology services	505	448	983	835
Other operating expense	1,908	1,315	3,348	2,665
Total non-interest expense	10,452	9,551	20,628	19,163
Income before income tax expense	5,529	7,003	13,219	13,715
Income tax expense	1,333	1,708	3,214	3,566
Net income	$ 4,196	$ 5,295	$ 10,005	$ 10,149
Per share information:				
Net income per share, basic	$ 0.21	$ 0.26	$ 0.51	$ 0.51
Net income per share, diluted	$ 0.21	$ 0.26	$ 0.51	$ 0.50

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	$ 4,196	$ 5,295	$ 10,005	$ 10,149
Other comprehensive income (loss):				
Unrealized loss on investment securities	(6,825)	(23,253)	(3,287)	(45,898)
Amortization of net unrealized (loss) gain on securities transferred from available-for-sale to held-to-maturity	60	(61)	120	(126)
Reclassification adjustment for loss (gain) included in net income	21	3	21	(18)
Unrealized gain on cash flow hedge	1,046	-	1,046	-
Tax effect	1,444	5,908	532	11,697
Total other comprehensive income (loss), net of tax	(4,254)	(17,403)	(1,568)	(34,345)
Total comprehensive income (loss)	$ (58)	$ (12,108)	$ 8,437	$ (24,196)

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 April 1, 2023	19,622,380	$ 19,622	$ 305,921	$ (99,620)	$ (42,065)	$ 183,858
Cumulative tax effect of adoption of accounting principle related to ASC 326	-	-	-	336	-	336
Adjusted beginning balance after cumulative effect adjustment	19,622,380	19,622	305,921	(99,284)	(42,065)	184,194
Net income	-	-	-	4,196	-	4,196
Other comprehensive loss	-	-	-	-	(4,254)	(4,254)
Repurchase of Class A common stock	(77,603)	(77)	(670)	-	-	(747)
Restricted stock issued	-	-	-	-	-	-
Stock based compensation	-	-	296	-	-	296
Balance at June 30, 2023	19,544,777	$ 19,545	$ 305,547	$ (95,088)	$ (46,319)	$ 183,685
Balance at April 1, 2022	20,000,753	$ 20,001	$ 310,887	$ (119,391)	$ (19,458)	$ 192,039
Net income	-	-	-	5,295	-	5,295
Other comprehensive loss	-	-	-	-	(17,403)	(17,403)
Stock-based compensation	-	-	137	-	-	137
Balance at June 30, 2022	20,000,753	$ 20,001	$ 311,024	$ (114,096)	$ (36,861)	$ 180,068

	Common Stock					
	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2023	20,000,753	$ 20,001	$ 311,282	$ (104,104)	$ (44,751)	$ 182,428
After tax cumulative effect of adoption of accounting principle related to ASC 326				(989)		(989)
Adjusted beginning balance after cumulative effect adjustment	20,000,753	20,001	311,282	(105,093)	(44,751)	181,439
Net income	-	-	-	10,005	-	10,005
Other comprehensive loss	-	-	-	-	(1,568)	(1,568)
Repurchase of Class A common stock	(577,603)	(577)	(6,036)	-	-	(6,613)
Restricted stock issued	121,627	121	(121)	-	-	-
Stock-based compensation	-	-	422	-	-	422
Balance at June 30, 2023	19,544,777	$ 19,545	$ 305,547	$ (95,088)	$ (46,319)	$ 183,685
Balance at January 1, 2022	19,991,753	19,992	310,666	(124,245)	(2,516)	203,897
Net income	-	-	-	10,149	-	10,149
Other comprehensive loss	-	-	-	-	(34,345)	(34,345)
Exercise of stock options	9,000	9	93			102
Stock-based compensation	-	-	265	-	-	265
Balance at June 30, 2022	20,000,753	$ 20,001	$ 311,024	$ (114,096)	$ (36,861)	$ 180,068

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

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income	$ 10,005	$ 10,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	239	705
Depreciation and amortization	298	363
(Accretion) amortization of premiums on securities, net	(178)	306
Accretion of deferred loan fees, net	(163)	(508)
Stock-based compensation	422	265
Loss (gain) on sale of available for sale securities	21	(18)
Gain on sale of loans held for sale	(441)	(356)
Increase in cash surrender value of bank owned life insurance	(538)	(529)
Decrease in deferred tax assets	3,214	3,567
Net change in operating assets and liabilities:		
Accrued interest receivable	(483)	(16)
Other assets	739	(2,069)
Accrued interest and other liabilities	7,051	8,246
Net cash provided by operating activities	20,186	20,105
Cash flows from investing activities:		
Purchase of investment securities held to maturity	(86,788)	(2,432)
Proceeds from maturities and pay-downs of investment securities held to maturity	54,873	8,173
Purchase of investment securities available for sale	(7,667)	(42,794)
Proceeds from maturities and pay-downs of investment securities available for sale	7,399	26,950
Proceeds from sales of investment securities available for sale	8,617	31,838
Net increase in loans held for investment	(93,737)	(115,607)
Purchase of loans held for investment	(700)	(70,175)
Additions to premises and equipment	(60)	(173)
Proceeds from the sale of loans held for sale	6,441	4,018
Proceeds from the redemption of Federal Home Loan Bank stock	6,305	-
Purchase of Federal Home Loan Bank stock	(8,164)	(1,302)
Net cash used in investment activities	(113,481)	(161,504)
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock, net	-	102
Repurchase of Class A common stock	(6,613)	-
Net increase in deposits	92,020	148,341
Proceeds from Federal Home Loan Bank advances	239,350	30,000
Repayments on Federal Home Loan Bank advances	(198,350)	-
Net cash provided by financing activities	126,407	178,443
Net increase in cash and cash equivalents	33,112	37,044
Cash and cash equivalents at beginning of period	54,168	46,228
Cash and cash equivalents at end of period	$ 87,280	$ 83,272
Supplemental disclosure of cash flow information:		
Interest paid	$ 15,535	$ 2,002
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans held for investment to loans held for sale	$ 6,000	$ 3,662
Lease liability arising from obtaining right-of-use assets	$ -	$ 898

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

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

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes appearing in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2022.

Principles of Consolidation

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

Use of Estimates

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

Reclassifications

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

Adoption of New Accounting Standards

Measurement of Credit Losses on Financial Instruments

On January 1st, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (e.g., loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 amended the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities, that management does not intend to sell or believes that it is more likely than not they will be required to sell.

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

The quantitative component of the estimate relies on the statistical relationship between the projected value of an economic indicator and the implied historical loss experience among a curated group of peers. The Company utilized regression analyses of peer data, in which the Company was included, and where observed credit losses and selected economic factors were used to determine suitable loss drivers for modeling the lifetime rates of probability of default (PD). A loss given default rate (LGD) is assigned to each pool for each period based on these PD outcomes. The model fundamentally utilizes an expected discounted cash flow (DCF) analysis for loan portfolio segments. The DCF analysis is run at the instrument-level and incorporates an array of loan-specific data points and segment-implied assumptions to determine the lifetime expected loss attributable to each instrument. An implicit "hypothetical loss" is derived for each period of the DCF and helps establish the present value of future cash flows for each period. The reserve applied to a specific instrument is the difference between the sum of the present value of future cash flows and the book balance of the loan at the measurement date.

Management elected the Remaining Life (WARM) methodology for five portfolio segments. For each of these segments, a long-term average loss rate is calculated and applied on a quarterly basis for the remaining life of the pool. Adjustments for economic expectations are made through qualitative assessments. For the remaining life estimated, management implemented a software solution that uses an attrition-based calculation that performs quarterly, cohort-based attrition measurements based on the loan portfolio.

At adoption of CECL, 84% or $1.3 billion of loan receivables were collectively evaluated under DCF method and 16% or $251.0 million of loan receivables were collectively evaluated under the Remaining Life method. The remaining $7.9 million loan receivables of the total loan portfolio were individually evaluated.

Portfolio segments are the level at which loss assumptions are applied to a pool of loans based on the similarity of risk characteristics inherent in the included instruments, relying on collateral codes and FFIEC Call Report codes. The Company currently segments the portfolio based on collateral codes for purpose of establishing reserves. Each of these segments is paired to regression models (Loss Driver Analyses) based on peer data for loans of similar risk characteristics. The Company has established relationships between internal segmentation and FFIEC Call Report codes for this purpose. The loss driver for each loan portfolio segment is derived from a readily available and reasonable economic forecast, including the Federal Reserve Bank projections of U.S. civilian unemployment rate and the year-over-year real GDP growth; for the residential loan segment the House Price index (“HPI”) projections published by Fannie Mae’s Economic and Strategic Research Group are utilized for the forecast. Forecasts are applied the first four quarters of the credit loss estimate and revert on a straight-line basis to the lookback period's historical mean for the economic indicator over the expected life of loans.

The model incorporates qualitative factor adjustments in order to calibrate the model for risk in each portfolio segment that may not be captured through quantitative analysis. Determinations regarding qualitative adjustments are reflective of management's expectation of loss conditions differing from those already captured in the quantitative component of the model.

The Company estimates a reserve for unfunded commitments, which is reported separately from the allowance for credit losses within other liabilities. The reserve is based upon the same quantitative and qualitative factors applied to the collectively evaluated loan portfolio.

The impact of adoption of the ASU 2016-13 was an increase to the allowance for credit losses (ACL) on loans receivables of $1.1 million and an increase to the reserve for unfunded commitments of $259 thousand. This one-time net of tax cumulative adjustment resulted in a increase of $1.0 million in accumulated deficit. See “Allowance for Credit Losses” section in Note 3 for more information on ACL.

Trouble Debt Restructuring

In March 2022, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings (“TDR”) and Vintage Disclosures. The standard addresses the following: 1) eliminates the accounting guidance for TDRs, requires an entity to determine whether a modification results in a new loan or a continuation of an existing loan, 2) expands disclosures related to modifications, and 3) requires disclosure of current period gross write-offs of financing receivables within the vintage disclosures table (see note 3). The Company adopted ASU 2022-02 effective January 1, 2023 on a prospective basis. The adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

Issued and Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In January 2021, the FASB clarified the scope of this guidance with ASU 2021-01 which provides optional guidance for a limited period of time to ease the burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This ASU is effective from March 12, 2020 through December 31, 2024. The Company is evaluating the impact of this ASU and has not yet determined whether LIBOR transition and this ASU will have a material effect on our business operations and consolidated financial statements.

2. INVESTMENT SECURITIES

On January 1st, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. In addition, ASC 326 amended the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

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 issued bonds in HTM the explicit guarantee of the US Government is sufficient to conclude that a credit loss reserve is not required. The reserve requirement is for three primary assets groups: municipal bonds, corporate bond, and non-agency securitizations. The Company calculates quarterly the loss reserve utilizing Moody's ImpairmentStudio. The CECL measurement for investment securities incorporates historical data, containing defaults and recoveries information, and Moody's baseline economic forecast. The solution uses probability of default/loss given default ("PD/LGD") approach. PD represents the likelihood a borrower will default. Within the Moody's model, this is determined using historical default 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 June 30, 2023 and December 31, 2022, all held to maturity securities held by the Company were rated investment grade.

At quarter end, HTM securities included $210.0 million of U.S. Government and U.S. Agency issued bonds and mortgage-backed securities. Because of the explicit and/or implicit guarantee on these bonds, the Company holds no reserves on these holdings. The remaining portion of the HTM portfolio is made up of $11.0 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 $19 thousand ACL as of June 30, 2023. 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 June 30, 2023 and December 31, 2022 was not required.

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

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	June 30, 2023			
Available-for-sale:	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government Agency	$ 9,906	$ -	$ (1,572)	$ 8,334
Collateralized mortgage obligations	107,991	-	(24,108)	83,883
Mortgage-backed securities - residential	71,279	-	(13,180)	58,099
Mortgage-backed securities - commercial	36,775	-	(5,923)	30,852
Municipal securities	25,044	-	(5,953)	19,091
Bank subordinated debt securities	16,836	-	(2,368)	14,468
Corporate bonds	4,033	-	(318)	3,715
	$ 271,864	$ -	$ (53,422)	$ 218,442
Held-to-maturity:				
U.S. Government Agency	$ 44,404	$ -	$ (6,174)	$ 38,230
U.S. Treasury	39,414	-	(14)	39,400
Collateralized mortgage obligations	65,844	15	(8,829)	57,030
Mortgage-backed securities - residential	44,834	178	(4,799)	40,213
Mortgage-backed securities - commercial	15,491	-	(1,082)	14,409
Corporate bonds	10,988	-	(941)	10,047
	$ 220,975	$ 193	$ (21,839)	$ 199,329
Allowance for credit losses - securities held-to-maturity	(19)			
Securities held-to maturity, net of allowance for credit losses	$ 220,956			

	December 31, 2022			
Available-for-sale:	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government Agency	$ 10,177	$ -	$ (1,522)	$ 8,655
Collateralized mortgage obligations	118,951	-	(23,410)	95,541
Mortgage-backed securities - residential	73,838	-	(12,959)	60,879
Mortgage-backed securities - commercial	32,244	15	(4,305)	27,954
Municipal securities	25,084	-	(6,601)	18,483
Bank subordinated debt securities	15,964	5	(1,050)	14,919
Corporate bonds	4,037	-	(328)	3,709
	$ 280,295	$ 20	$ (50,175)	$ 230,140
Held-to-maturity:				
U.S. Government Agency	$ 44,914	$ 25	$ (5,877)	$ 39,062
U.S. Treasury	9,841	-	(13)	9,828
Collateralized mortgage obligations	68,727	28	(7,830)	60,925
Mortgage-backed securities - residential	42,685	372	(4,574)	38,483
Mortgage-backed securities - commercial	11,442	-	(665)	10,777
Corporate bonds	11,090	-	(1,077)	10,013
	$ 188,699	$ 425	$ (20,036)	$ 169,088

During the year ended December 31, 2022, a total of 26 investment securities with an amortized cost basis and fair value of $74.4 million and $63.8 million, respectively, were transferred from AFS to HTM. These securities had a net unrealized loss of $10.6 million on the date of transfer. The net unrealized loss that was retained in accumulated other comprehensive income ("AOCI") is being amortized over the remaining life of the securities. For the three and six months ended June 30, 2023, total amortization out of AOCI for net unrealized losses on securities transferred from AFS to HTM was $60 thousand and $120 thousand, respectively. The unamortized net unrealized loss at June 30, 2023 was $9.7 million.

Gains and losses on the sale of securities are recorded on the trade date and are determined on the specific identification basis. The following table presents the proceeds, realized gross gains and realized gross losses on sales and calls of AFS debt securities for the three and six months ended June 30, 2023 and 2022 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Available-for-sale:	**2023**	**2022**	**2023**	**2022**
Proceeds from sale and call of securities	$ -	$ 17,280	$ 8,617	$ 31,838
Gross gains	$ -	$ 58	$ 3	$ 216
Gross losses	-	(61)	(24)	(198)
Net realized (loss) gain	$ -	$ (3)	$ (21)	$ 18

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

	Available-for-sale		Held-to-maturity	
June 30, 2023:	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ -	$ -	$ 40,916	$ 40,892
Due after one year through five years	4,033	3,715	9,486	8,555
Due after five years through ten years	17,835	15,285	-	-
Due after ten years	24,045	18,274	-	-
U.S. Government Agency	9,906	8,334	44,404	38,230
Collateralized mortgage obligations	107,991	83,883	65,844	57,030
Mortgage-backed securities - residential	71,279	58,099	44,834	40,213
Mortgage-backed securities - commercial	36,775	30,852	15,491	14,409
	$ 271,864	$ 218,442	$ 220,975	$ 199,329

At June 30, 2023, 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 United States Government and Government Agency securities. All the collateralized mortgage obligations and mortgage-backed securities are issued by United States sponsored entities at June 30, 2023 and December 31, 2022.

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

	June 30, 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	$ -	$ -	$ 46,564	$ (9,030)	$ 46,564	$ (9,030)
U.S. Treasury	39,400	(14)	-	-	39,400	(14)
Collateralized mortgage obligations	-	-	140,913	(37,550)	140,913	(37,550)
Mortgage-backed securities - residential	3,686	(67)	92,653	(20,400)	96,339	(20,467)
Mortgage-backed securities - commercial	10,528	(315)	34,733	(8,178)	45,261	(8,493)
Municipal securities	-	-	19,091	(5,953)	19,091	(5,953)
Bank subordinated debt securities	3,530	(393)	10,527	(1,975)	14,057	(2,368)
Corporate bonds	-	-	13,762	(865)	13,762	(865)
	$ 57,144	$ (789)	$ 358,243	$ (83,951)	$ 415,387	$ (84,740)

	December 31, 2022					
	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	$ 11,407	(1,093)	36,310	(7,616)	47,717	$ (8,709)
U.S. Treasury	9,828	(13)	-	-	9,828	(13)
Collateralized mortgage obligations	16,500	(963)	139,965	(34,962)	156,465	(35,925)
Mortgage-backed securities - residential	5,059	(564)	91,742	(19,348)	96,801	(19,912)
Mortgage-backed securities - commercial	10,052	(1,173)	26,823	(5,300)	36,875	(6,473)
Municipal securities	-	-	18,483	(6,601)	18,483	(6,601)
Bank subordinated debt securities	11,295	(670)	2,619	(381)	13,914	(1,051)
Corporate bonds	13,723	(926)	-	-	13,723	(926)
	$ 77,864	$ (5,402)	$ 315,942	$ (74,208)	$ 393,806	$ (79,610)

As of June 30, 2023, the unrealized losses associated with $131.7 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.

ASC Topic 326 amended the existing other-than-temporary-impairment guidance for AFS securities, requiring credit losses to be recorded as an allowance rather than through a permanent write-down. When evaluating AFS debt securities under ASC Topic 326, the Company has evaluated whether the decline in fair value is attributed 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 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 June 30, 2023, the Company had $57.9 million of unrealized losses on mortgage-backed securities and 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.

At December 31, 2022, the Company had $53.7 million of unrealized losses on mortgage backed securities and collateralized mortgage obligations of government sponsored entities having a fair value of $294.6 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 security 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 June 30, 2023, the Company does not intend to sell debt securities that are in an unrealized loss position and it is not more than likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis. Therefore, management does not consider any investment to be other than temporarily impaired at June 30, 2023.

Pledged Securities

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 June 30, 2023, the Company did not have any securities pledged under this agreement.

The Company is a Qualified Public Depositor (“QPD”) with the State of Florida. As a QPD, the Company has the legal authority to maintain public deposits from cities, municipalities, and the State of Florida. These public deposits are secured by securities pledged to the State of Florida at a ratio of 25% of the outstanding uninsured deposits. The Company must also maintain a minimum amount of pledged securities to be in the public funds program.

As of June 30, 2023, the Company had a total of $219.4 million in deposits under the public funds program and pledged to the State of Florida for these public funds were twenty nine bonds with an aggregate fair value of $78.4 million.

As of December 31, 2022, the Company had a total of $204.2 million in deposits under the public funds program and pledged to the State of Florida for these public funds were eighteen corporate bonds with an aggregate fair value of $49.0 million.

The Federal Reserve Board, on March 12, 2023, announced the creation of a new Bank 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 no borrowing under the BTFP program as of June 30, 2023 and had pledged $136.8 million in securities measured at par to the Federal Reserve Bank of Atlanta for the BTFP program.

3. LOANS

On January 1, 2023, the Company adopted FASB ASC Topic 326 using the modified retrospective methodology in accordance with the amendments of FASB ASU 2016-13. Through the adoption of CECL, the Company developed an allowance for credit losses (“ACL”) methodology that replaces its previous allowance for loan losses methodology. See the ACL section in this note for further information regarding the Company’s ACL. Prior periods balance for ACL are presented under legacy GAAP and may not be comparable to current period presentation.

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

	June 30, 2023		December 31, 2022	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 183,093	11.5 %	$ 185,636	12.3 %
Commercial Real Estate	989,401	62.0 %	970,410	64.4 %
Commercial and Industrial	169,401	10.6 %	126,984	8.4 %
Foreign Banks	85,409	5.4 %	93,769	6.2 %
Consumer and Other	167,845	10.5 %	130,429	8.7 %
Total gross loans	1,595,149	100.0 %	1,507,228	100.0 %
Less: Deferred fees (cost)	(810)		(110)	
Total loans net of deferred fees (cost)	1,595,959		1,507,338	
Less: Allowance for credit losses	18,815		17,487	
Total net loans	$ 1,577,144		$ 1,489,851	

At June 30, 2023 and December 31, 2022, the Company had $582.9 million and $338.1 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.

The Company was a participant in the Small Business Administration’s (“SBA”) Paycheck Protection Program (“PPP”) loans. These loans were designed to provide a direct incentive for small businesses to keep their workers on payroll and the funds had to be used towards payroll cost, mortgage interest, rent, utilities and other costs related to COVID-19. These loans are forgivable under specific criteria as determined by the SBA. The Company had PPP loans totaling $299 thousand at June 30, 2023 and $1.3 million at December 31, 2022, which are categorized as commercial and industrial loans.

The Company recognized $4 thousand and $1.5 million in PPP loan fees and interest income during the six months ended June 30, 2023 and 2022, respectively, which is reported under loans, including fees, within the Consolidated Statements of Operations.

Allowance for Credit Losses

In general, the Company utilizes the Discounted Cash Flow (DCF) method or the Remaining Life (WARM) 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 and supportable forecasts in projective models. Economic forecasts applied to regression models to estimate probability of default for loan receivables use at least one of the following economic indicators: civilian unemployment rate (national), real gross domestic product growth (national GDP) and/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 the pool. Adjustments for economic expectations are made through qualitative factors.

Qualitative factors used in the ACL methodology include:

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

ACL for the three and six months ended June 30 2023, was estimated under the CECL methodology, and for all periods in 2022, it was estimated under the incurred loss model.

Changes in the allowance for credit losses for the three and six months ended June 30 2023 and 2022 were as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2023						
Beginning balance	$ 2,819	$ 10,453	$ 2,367	$ 772	$ 2,476	$ 18,887
Provision for credit losses (1)	(148)	(270)	125	(95)	345	(43)
Recoveries	2	-	8	-	1	11
Charge-offs	-	-	-	-	(40)	(40)
Ending Balance	$ 2,673	$ 10,183	$ 2,500	$ 677	$ 2,782	$ 18,815
Six Months Ended June 30, 2023						
Beginning balance	$ 1,352	$ 10,143	$ 4,163	$ 720	$ 1,109	$ 17,487
Cumulative effect of adoption of accounting principle (2)	1,238	1,105	(2,158)	23	858	1,066
Provision for credit losses (3)	73	(1,065)	443	(66)	857	242
Recoveries	10	-	52	-	3	65
Charge-offs	-	-	-	-	(45)	(45)
Ending Balance	$ 2,673	$ 10,183	$ 2,500	$ 677	$ 2,782	$ 18,815

(1) Provision for credit losses excludes $62 thousand expense due to unfunded commitments included in other liabilities and $19 thousand expense due to investment securities held to maturity.

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

(3) Provision for credit losses excludes $22 thousand release due to unfunded commitments included in other liabilities and $19 thousand expense due to investment securities held to maturity.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2022						
Beginning balance	$ 2,357	$ 9,183	$ 2,355	$ 491	$ 688	$ 15,074
Provision for credit losses	9	107	311	160	118	705
Recoveries	-	-	5	-	3	8
Charge-offs	-	-	-	-	(1)	(1)
Ending Balance	$ 2,366	$ 9,290	$ 2,671	$ 651	$ 808	$ 15,786
Six Months Ended June 30, 2022						
Beginning balance	$ 2,498	$ 8,758	$ 2,775	$ 457	$ 569	$ 15,057
Provision for credit losses	(148)	532	(115)	194	242	705
Recoveries	32	-	11	-	3	46
Charge-offs	(16)	-	-	-	(6)	(22)
Ending Balance	$ 2,366	$ 9,290	$ 2,671	$ 651	$ 808	$ 15,786

At June 30, 2023 the ACL, under the CECL methodology, was $ 18.8 million compared to $17.5 million at December 31, 2022, under the incurred loss methodology. The increase of $1.3 million was composed of $1.1 million impact of adoption of the ASU 2016-13 on loan receivables, $242 thousand increase on ACL for loan receivables due to loan growth, and $20 thousand decrease due to net charge offs.

The Company had charge offs totaling $40 thousand for the quarter ended June 30 2023 on loans. $21 thousand of charge offs related to loans were originated in 2015 and $19 thousand related to loans were originated in 2023.

The Company had charge offs totaling $45 thousand for the six months ended June 30 2023 on loans. $21 thousand of charge offs related to loans were originated in 2015 and $24 thousand related to loans were originated in 2023.

The Federal Open Market Committee ("FOMC") economic forecasts as of June 30, 2023 showed improvements in unemployment and real GDP growth. Fannie Mae HPI forecast reflected deterioration in national housing prices, but to a lesser extent than forecasts published in first quarter 2023. 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.

The ACL and the outstanding balances in the specified loan categories as of June 30, 2023 and December 31, 2022 are as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
June 30, 2023:						
Allowance for credit losses:						
Individually evaluated for impairment	$ 144	$ -	$ 82	$ -	$ -	$ 226
Collectively evaluated for impairment	2,529	10,183	2,418	677	2,782	18,589
Balances, end of period	$ 2,673	$ 10,183	$ 2,500	$ 677	$ 2,782	$ 18,815
Loans:						
Individually evaluated for impairment	$ 7,105	$ -	$ 547	$ -	$ -	$ 7,652
Collectively evaluated for impairment	175,988	989,401	168,854	85,409	167,845	1,587,497
Balances, end of period	$ 183,093	$ 989,401	$ 169,401	$ 85,409	$ 167,845	$ 1,595,149
December 31, 2022:						
Allowance for credit losses:						
Individually evaluated for impairment	$ 155	$ -	$ 41	$ -	$ 98	$ 294
Collectively evaluated for impairment	1,197	10,143	4,122	720	1,011	17,193
Balances, end of period	$ 1,352	$ 10,143	$ 4,163	$ 720	$ 1,109	$ 17,487
Loans:						
Individually evaluated for impairment	$ 7,206	$ 393	$ 82	$ -	$ 196	$ 7,877
Collectively evaluated for impairment	178,430	970,017	126,902	93,769	130,233	1,499,351
Balances, end of period	$ 185,636	$ 970,410	$ 126,984	$ 93,769	$ 130,429	$ 1,507,228

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 evaluated 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.

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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 presented below for the periods indicated (in thousands):

	As of June 30, 2023							
	Term Loans by Origination Year							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
Residential real estate								
Pass	$ 5,028	$ 38,626	$ 26,459	$ 7,189	$ 9,813	$ 87,326	$ 8,652	$ 183,093
Total	5,028	38,626	26,459	7,189	9,813	87,326	8,652	183,093
Commercial real estate								
Pass	38,191	341,882	227,443	103,150	80,974	191,613	3,621	986,874
Substandard	-	-	1,828	699	-	-	-	2,527
Total	38,191	341,882	229,271	103,849	80,974	191,613	3,621	989,401
Commercial and industrial								
Pass	48,282	38,589	35,029	7,757	17,243	2,740	18,925	168,565
Substandard	-	-	350	-	486	-	-	836
Total	48,282	38,589	35,379	7,757	17,729	2,740	18,925	169,401
Foreign banks								
Pass	80,909	4,500	-	-	-	-	-	85,409
Total	80,909	4,500	-	-	-	-	-	85,409
Consumer and other loans								
Pass	39,715	75,831	48,250	724	513	1,424	1,388	167,845
Substandard	-	-	-	-	-	-	-	-
Total	39,715	75,831	48,250	724	513	1,424	1,388	167,845
Total Loans								
Pass	212,125	499,428	337,181	118,820	108,543	283,103	32,586	1,591,786
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	2,178	699	486	-	-	3,363
Doubtful	-	-	-	-	-	-	-	-
Total	$ 212,125	$ 499,428	$ 339,359	$ 119,519	$ 109,029	$ 283,103	$ 32,586	$ 1,595,149

	As of December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate:					
Home equity line of credit and other	$ 623	$ -	$ -	$ -	$ 623
1-4 family residential	132,178	-	-	-	132,178
Condo residential	52,835	-	-	-	52,835
	185,636	-	-	-	185,636
			-		
Commercial real estate:					
Land and construction	38,687	-	-	-	38,687
Multi-family residential	176,820	-	-	-	176,820
Condo commercial	49,601	-	393	-	49,994
Commercial property	702,357	-	2,552	-	704,909
	967,465	-	2,945	-	970,410
Commercial and industrial:					
Secured	120,873	-	807	-	121,680
Unsecured	5,304	-	-	-	5,304
	126,177	-	807	-	126,984
Foreign banks	93,769	-	-	-	93,769
Consumer and other loans	130,233	-	196	-	130,429
Total	$ 1,503,280	$ -	$ 3,948	$ -	$ 1,507,228

Loan Aging

The Company also considers the performance of loans in grading and in evaluating the credit quality of the loan portfolio. The Company analyzes credit quality and loan grades based on payment performance and the aging status of the loan. The following tables include an aging analysis of accruing loans and total non-accruing loans as of June 30, 2023 and December 31, 2022 (in thousands):

	Accruing					
As of June 30, 2023	**Current**	**Past Due 30-89 Days**	**Past Due 90 Days or > and Still Accruing**	**Total Accruing**	**Non-Accrual**	**Total Loans**
Residential real estate:						
Home equity line of credit and other	$ 543	$ -	$ -	$ 543	$ -	$ 543
1-4 family residential	129,987	-	-	129,987	-	129,987
Condo residential	52,563	-	-	52,563	-	52,563
	183,093	-	-	183,093	-	183,093
Commercial real estate:						
Land and construction	33,606	-	-	33,606	-	33,606
Multi-family residential	173,360	-	-	173,360	-	173,360
Condo commercial	56,255	-	-	56,255	-	56,255
Commercial property	726,129	-	-	726,129	-	726,129
Leasehold improvements	51	-	-	51	-	51
	989,401	-	-	989,401	-	989,401
Commercial and industrial:						
Secured	149,392	224	-	149,616	486	150,102
Unsecured	19,299	-	-	19,299	-	19,299
	168,691	224	-	168,915	486	169,401
Foreign banks	85,409	-	-	85,409	-	85,409
Consumer and other	167,845	-	-	167,845	-	167,845
Total	$ 1,594,439	$ 224	$ -	$ 1,594,663	$ 486	$ 1,595,149

As of December 31, 2022:	Current	Past Due 30-89 Days	Accruing Past Due 90 Days or > and Still Accruing	Total Accruing	Non-Accrual	Total Loans
Residential real estate:						
Home equity line of credit and other	$ 623	$ -	$ -	$ 623	$ -	$ 623
1-4 family residential	131,120	1,058	-	132,178	-	132,178
Condo residential	50,310	2,525	-	52,835	-	52,835
	182,053	3,583	-	185,636	-	185,636
Commercial real estate:						
Land and construction	38,687	-	-	38,687	-	38,687
Multi-family residential	176,820	-	-	176,820	-	176,820
Condo commercial	49,994	-	-	49,994	-	49,994
Commercial property	704,884	25	-	704,909	-	704,909
Leasehold improvements	-	-	-	-	-	-
	970,385	25	-	970,410	-	970,410
Commercial and industrial:						
Secured	121,649	31	-	121,680	-	121,680
Unsecured	4,332	972	-	5,304	-	5,304
	125,981	1,003	-	126,984	-	126,984
Foreign banks	93,769	-	-	93,769	-	93,769
Consumer and other	130,169	260	-	130,429	-	130,429
Total	$ 1,502,357	$ 4,871	$ -	$ 1,507,228	$ -	$ 1,507,228

Nonaccrual Status

The following table includes the amortized cost basis of loans on nonaccrual status and loans past due over 90 days and still accruing as of June 30 2023:

	June 30, 2023 Nonaccrual Loans With No Related Allowance	Nonaccrual Loans With Related Allowance	Total Nonaccruals	Loans Past Due Over 90 Days and Still Accruing
Residential real estate	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Commercial and industrial	-	486	486	-
Consumer and other	-	-	-	-
	$ -	$ 486	$ 486	$ -

The Company did not have loans in nonaccrual status as of December 31, 2022.

Accrued interest receivable is excluded from the estimate of credit losses. There was no interest income recognized attributable to nonaccrual loans outstanding during the three months ended June 30, 2023 and 2022. Interest income on these loans for the three months ended June 30, 2023 and 2022, would have been approximately $13 thousand and $0 thousand, respectively, had these loans performed in accordance with their original terms.

Collateral-Dependent Loans

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the sale or operation of the collateral. There were no collateral dependent loans as of June 30 2023 and as of December 31, 2022.

Impaired Loans

The following table includes the unpaid principal balances for impaired loans with the associated allowance amount, if applicable, on the basis of impairment methodology as of December 31, 2022 (in thousands):

	December 31, 2022		
	Unpaid Principal Balance	Net Investment Balance	Valuation Allowance
Impaired Loans with No Specific Allowance:			
Residential real estate	$ 3,551	$ 3,544	$ -
Commercial real estate	393	393	-
	3,944	3,937	-
Impaired Loans with Specific Allowance:			
Residential real estate	3,655	3,626	155
Commercial and industrial	82	82	41
Consumer and other	196	196	98
	3,933	3,904	294
Total	$ 7,877	$ 7,841	$ 294

Net investment balance is the unpaid principal balance of the loan adjusted for the remaining net deferred loan fees.

The following table presents the average recorded investment balance on impaired loans for the periods indicated (in thousands):

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Residential real estate	$ 7,332	$ 7,890
Commercial real estate	599	631
Commercial and industrial	115	124
Consumer and other	214	217
Total	$ 8,260	$ 8,862

Interest income recognized on impaired loans for the three months ended June 30, 2022 was $90 thousand and for the six months ended June 30, 2022 was $181 thousand..

Loan Modifications to Borrowers Experiencing Financial Difficulties

The following table present newly restructured loans, by type of modification, which occurred during the quarter ended June 30, 2023:

	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	350	350	1	350	350
Consumer and other	-	-	-	-	-	-
	1	$ 350	$ 350	1	$ 350	$ 350

The Company had one new modifications to borrowers experiencing financial difficulties for the three and six months ended June 30, 2023. No loan modifications that subsequently defaulted for the three and six months ended June 30, 2023.

4. INCOME TAXES

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Current:		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred:		
Federal	2,513	2,778
State	701	788
Total deferred	3,214	3,566
Total tax expense	$ 3,214	$ 3,566

The actual income tax expense for the six months ended June 30, 2023 and 2022 differs from the statutory tax expense for the period (computed by applying the U.S. federal corporate tax rate of 21% for 2023 and 2022 to income before provision for income taxes) as follows (in thousands):

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Federal taxes at statutory rate	$ 2,776	$ 2,880
State income taxes, net of federal tax benefit	574	596
Bank owned life insurance	(136)	(134)
Other, net	-	224
Total tax expense	$ 3,214	$ 3,566

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

	June 30, 2023	December 31, 2022
Deferred tax assets:		
Net operating loss	$ 18,951	$ 21,720
Allowance for credit losses	4,834	4,432
Lease liability	3,272	3,648
Unrealized losses on available for sale securities	15,990	15,193
Depreciable property	181	158
Equity compensation	481	373
Accruals	290	723
Deferred tax assets:	43,999	46,247
Deferred tax liability:		
Deferred loan cost	(205)	(28)
Lease right of use asset	(3,272)	(3,648)
Deferred expenses	(222)	(175)
Cash flow hedge	(265)	-
Other, net	(21)	(36)
Deferred tax liability	(3,985)	(3,887)
Net deferred tax assets	$ 40,014	$ 42,360

The Company has approximately $70.9 million of federal and $93.6 million of state net operating loss carryforwards expiring in various amounts between 2031 and 2036 and which are limited to offset, to the extent permitted, future taxable earnings of the Company.

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

The major tax jurisdictions where the Company files income tax returns are the U.S. federal jurisdiction and the State of Florida. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2019.

For the three and six months ended June 30, 2023 and 2022, the Company did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. Additionally, no interest or penalties were recorded as a result of tax uncertainties.

5. OFF-BALANCE SHEET ARRANGEMENTS

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

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

A summary of the amounts of the Company's financial instruments with off-balance sheet risk are shown below at June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Commitments to grant loans and unfunded lines of credit	$ 92,910	$ 95,461
Standby and commercial letters of credit	8,344	4,320
Total	$ 101,254	$ 99,781

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

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

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

6. DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk exposure. The notional amount of the interest rate swaps do 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 June 30, 2023, the Company had 2 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 2.88 years, the weighted average fixed rate paid is 3.59%, with the weighted average 3-month compound SOFR being received. The Company had no cash flow hedges at December 31, 2022.

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

Interest Rate Swaps

The Company enters into interest rate swaps with its loan customers. The Company had 17 and 15 interest rate swaps with loan customers with an aggregate notional amount of $39.8 million and $33.9 million at June 30, 2023 and December 31, 2022, 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 requires the Company to provide the counterparty with funds to be held as collateral which the Company reports as other assets under the Consolidated Balance Sheets. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

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

				Fair Value	
	Notional Amount	Collateral Amount	Balance Sheet Location	Asset	Liability
June 30, 2023:					
Derivatives designated as hedging instruments:					
Interest rate swaps	$ 50,000	-	Other assets	$ 1,046	-
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	$ 39,818	$ 1,297	Other assets/Other liabilities	$ 4,577	$ 4,577
December 31, 2022:					
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	$ 33,893	$ 1,278	Other assets/Other liabilities	$ 5,011	$ 5,011

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

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

Fair Value Hierarchy

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

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

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

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value 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 that is significant to the fair value measurement.

Items Measured at Fair Value on a Recurring Basis

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

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

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2023 and December 31, 2022 for each of the fair value hierarchy levels (in thousands):

	June 30, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities available for sale:								
U.S. Government Agency	$ -	$ 8,334	$ -	$ 8,334	$ -	$ 8,655	$ -	$ 8,655
Collateralized mortgage obligations	-	83,883	-	83,883	-	95,541	-	95,541
Mortgage-backed securities - residential	-	58,099	-	58,099	-	60,879	-	60,879
Mortgage-backed securities - commercial	-	30,852	-	30,852	-	27,954	-	27,954
Municipal securities	-	19,091	-	19,091	-	18,483	-	18,483
Bank subordinated debt securities	-	14,468	-	14,468	-	14,919	-	14,919
Corporate bonds	-	3,715	-	3,715	-	3,709	-	3,709
Total	-	218,442	-	218,442	-	230,140	-	230,140
Derivative assets	-	5,623	-	5,623	-	5,011	-	5,011
Total assets at fair value	$ -	$ 224,065	$ -	$ 224,065	$ -	$ 235,151	$ -	$ 235,151
Derivative liabilities	$ -	$ 4,577	$ -	$ 4,577	$ -	$ 5,011	$ -	$ 5,011
Total liabilities at fair value	$ -	$ 4,577	$ -	$ 4,577	$ -	$ 5,011	$ -	$ 5,011

Items Measured at Fair Value on a Non-recurring Basis

Individually Evaluated Loans and Impaired Loans: ASC 326 eliminates the current accounting model for impaired loans effective as of January 1, 2023. At December 31, 2022, in accordance with provisions of the loan impairment guidance, individual loans with a carrying amount of approximately $ 3.9 million, were written down to their fair value of approximately $3.6 million, resulting in an impairment charge of $294 thousand, which was included in the allowance for credit losses at December 31, 2022. Loans subject to write-downs, or impaired loans, are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions are considered a Level 3 valuation.

Other Real Estate: Other real estate owned is valued at the lesser of the third-party appraisals less management's estimate of the costs to sell or the carrying cost of the other real estate owned. Appraisals generally use the market approach valuation technique and use market observable data to formulate an opinion of the fair value of the properties. However, the appraiser uses professional judgment in determining the fair value of the property and the Company may also adjust the value for changes in market conditions subsequent to the valuation date when current appraisals are not available. As a consequence of the carrying cost or the third-party appraisal and adjustments therein, the fair values of the properties are considered a Level 3 valuation.

The following table represents the Company’s assets measured at fair value on a non-recurring basis at June 30, 2023 and December 31, 2022 for each of the fair value hierarchy levels (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2023:				
Individually evaluated loans	$ -	$ -	$ -	$ -
December 31, 2022:				
Impaired loans	$ -	$ -	$ 3,639	$ 3,639

The following table presents quantified information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2022 (in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)
December 31, 2022:			
Residential real estate	$ 3,500	Sales comparison approach	Adj. for differences between comparable sales
Commercial and industrial	41	Discounted cash flow	Adj. for differences in net operating income expectations
Consumer and other loans	98	Discounted cash flow	Adj. for differences in net operating income expectations
Total impaired loans	$ 3,639		

There were no financial liabilities measured at fair value on a non-recurring basis at June 30, 2023 and December 31, 2022.

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 June 30, 2023 and December 31, 2022 (in thousands):

	Carrying Amount	Fair Value Hierarchy Level 1	Level 2	Level 3	Fair Value Amount
June 30, 2023:					
Financial Assets:					
Cash and due from banks	$ 7,873	$ 7,873	$ -	$ -	$ 7,873
Interest-bearing deposits in banks	$ 79,407	$ 79,407	$ -	$ -	$ 79,407
Investment securities held to maturity, net	$ 220,956	$ -	$ 199,329	$ -	$ 199,329
Loans held for investment, net	$ 1,577,144	$ -	$ -	$ 1,519,939	$ 1,519,939
Accrued interest receivable	$ 8,029	$ -	$ 1,293	$ 6,736	$ 8,029
Financial Liabilities:					
Demand deposits	$ 572,360	$ 572,360	$ -	$ -	$ 572,360
Money market and savings accounts	$ 994,429	$ 994,429	$ -	$ -	$ 994,429
Interest-bearing checking accounts	$ 59,501	$ 59,501	$ -	$ -	$ 59,501
Time deposits	$ 295,011	$ -	$ -	$ 292,428	$ 292,428
FHLB advances	$ 87,000	$ -	$ 84,564	$ -	$ 84,564
Accrued interest payable	$ 1,183	$ -	$ 459	$ 724	$ 1,183
December 31, 2022:					
Financial Assets:					
Cash and due from banks	$ 6,605	$ 6,605	$ -	$ -	$ 6,605
Interest-bearing deposits in banks	$ 47,563	$ 47,563	$ -	$ -	$ 47,563
Investment securities held to maturity	$ 188,699	$ -	$ 169,088	$ -	$ 169,088
Loans held for investment, net	$ 1,489,851	$ -	$ -	$ 1,436,877	$ 1,436,877
Accrued interest receivable	$ 7,546	$ -	$ 1,183	$ 6,363	$ 7,546
Financial Liabilities:					
Demand deposits	$ 629,776	$ 629,776	$ -	$ -	$ 629,776
Money market and savings accounts	$ 915,853	$ 915,853	$ -	$ -	$ 915,853
Interest-bearing checking accounts	$ 66,675	$ 66,675	$ -	$ -	$ 66,675
Time deposits	$ 216,977	$ -	$ -	$ 211,406	$ 211,406
FHLB advances	$ 46,000	$ -	$ 44,547	$ -	$ 44,547
Accrued interest payable	$ 229	$ -	$ 92	$ 137	$ 229

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 sold 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 voting 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 common stock, par value $1.00 per share, formerly held by its shareholders was converted into and exchanged for one newly issued share of the Company's Class A common stock, par value $1.00 per share, and the Bank became the Company's wholly owned subsidiary.

In the Reorganization, each shareholder of the Bank received securities of the same class, having substantially 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.

In March 2023, the Company issued 121,627 shares of Class A common stock to employees and directors as restricted stock awards pursuant to the Company's 2015 equity incentive plan. There were no stock awards issued during the quarter ended June 30, 2023 nor during the three and six months ended June 30, 2022.

During the second quarter of 2023, the Company repurchased 77,603 shares of Class A common stock at a weighted average price per share of $9.58. The aggregate purchase price for these transactions was approximately $747 thousand, including transaction costs. These repurchases were made through open market purchases pursuant to the Company's publicly announced repurchase program. As of June 30, 2023, 172,397 shares remained authorized for repurchase under this program.

Shares of the Company's Class A common stock issued and outstanding as of June 30, 2023 and December 31, 2022 were 19,544,777 and 20,000,753, respectively.

Dividends

Declaration of dividends by the Board is required before dividend payments are made. No dividends were approved by the Board for the common stock classes for the three months ended June 30, 2023 and 2022. Additionally, there were no dividends declared and unpaid as of June 30, 2023 and 2022.

The Company and the Bank exceeded all regulatory capital requirements and remained above "well-capitalized" guidelines as of June 30, 2023 and December 31, 2022. At June 30, 2023, the total risk-based capital ratios for the Company and the Bank were 13.42% and 13.37%, respectively.

9. EARNINGS PER SHARE

Earnings per share ("EPS") for common stock is calculated using the two-class method required for participating securities. Basic EPS is calculated by dividing net income (loss) available to common stockholders 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 stockholders by the weighted-average number of common 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 stockholders for the three and six months ended June 30, 2023 and 2022 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net Income	$ 4,196	$ 5,295	$ 10,005	$ 10,149
Net income available to common stockholders	$ 4,196	$ 5,295	$ 10,005	$ 10,149

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The following table reflects the calculation of basic and diluted earnings per common share class for the three and six months ended June 30, 2023 and 2022 (in thousands, except per share amounts):

	Three Months Ended June 30,	
	2023	2022
	Class A	Class A
Basic EPS		
Numerator:		
Net income available to common shares	$ 4,196	$ 5,295
Denominator:		
Weighted average shares outstanding	19,590,359	20,000,753
Earnings per share, basic	$ 0.21	$ 0.26
Diluted EPS		
Numerator:		
Net income available to common shares	$ 4,196	$ 5,295
Denominator:		
Weighted average shares outstanding for basic EPS	19,590,359	20,000,753
Add: Dilutive effects of assumed exercises of stock options	49,323	170,508
Weighted avg. shares including dilutive potential common shares	19,639,682	20,171,261
Earnings per share, diluted	$ 0.21	$ 0.26
Anti-dilutive stock options excluded from diluted EPS	730,500	15,000

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

	Six Months Ended June 30,	
	2023	2022
	Class A	Class A
Basic EPS		
Numerator:		
Net income (loss) available to common shares	$ 10,005	$ 10,149
Denominator:		
Weighted average shares outstanding	19,722,152	19,997,869
Earnings per share, basic	$ 0.51	$ 0.51
Diluted EPS		
Numerator:		
Net income available to common shares	$ 10,005	$ 10,149
Denominator:		
Weighted average shares outstanding for basic EPS	19,722,152	19,997,869
Add: Dilutive effects of assumed exercises of stock options	68,604	195,049
Weighted avg. shares including dilutive potential common shares	19,790,756	20,192,918
Earnings per share, diluted	$ 0.51	$ 0.50
Anti-dilutive stock options excluded from diluted EPS	730,500	15,000

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

10. LOSS CONTINGENCIES

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

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events from July 1, 2023 through August 11, 2023, which is the date this Form 10-Q was available to be issued.

In July 2023, three individual shareholders filed a complaint against six board members serving in July 2021, without naming the Bank as a party, alleging the named directors did not have the authority to approve the exchange of preferred stock in July 2021 as part of the Bank's initial public offering and that further, such action breached their fiduciary duties. The Plaintiffs claim this exchange was not permitted by the Bank's Articles of Incorporation. The Company believes that the allegations in the lawsuit are legally and factually without merit, and the Company intends to vigorously defend against the allegations in the lawsuit. Despite the Company's belief the lawsuit lacks merit, if the plaintiffs were successful, the Court could award substantial compensatory damages.

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, for the quarter and six months ended June 30, 2023. This discussion and analysis is best read in conjunction with the unaudited consolidated financial statements and related footnotes included in this quarterly report on Form 10-Q and the audited consolidated financial statements and related footnotes included in the Annual Report on Form 10-K/A ("2022 Form 10-K/A") filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2022.

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 and in the 2022 Form 10-K/A 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 Quarterly Report on Form 10-Q ("Form 10-Q") contains statements that are not historical in nature and 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 (Exchange Act"). The words "may," "will," "anticipate," "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, but are not limited to, 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 and balance sheet restructuring.

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

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to successfully manage interest rate risk, credit risk, liquidity risk, and other risks inherent to our industry;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our credit loss reserve and deferred tax asset valuation allowance;
- the efficiency and effectiveness of our internal control procedures and processes;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- adverse changes or conditions in capital and financial markets, including actual or potential stresses in the banking industry;
- deposit attrition and the level of our uninsured deposits;
- legislative or regulatory changes and changes in accounting principles, policies, practices or guidelines, including the on-going effects of the implementation of the Current Expected Credit Losses ("CECL") standard;
- the effects of our lack of a diversified loan portfolio and concentration in the South Florida market, including the risks of geographic, depositor, and industry concentrations, including our concentration in loans secured by real estate;
- effects of climate change;
- the concentration of ownership of our common stock;
- fluctuations in the price of our common stock;
- our ability to fund or access the capital markets at attractive rates and terms and manage our growth, both organic growth as well as growth through other means, such as future acquisitions;
- inflation, interest rate, unemployment rate, market and monetary fluctuations;
- impacts of international hostilities and geopolitical events;
- increased competition and its effect on the pricing of our products and services as well as our margin;
- the effectiveness of our risk management strategies, including operational risks, including, but not limited to, client, employee, or third-party fraud and security breaches; and
- other risks described in this Form 10-Q, the 2022 Form 10-K/A and other filings we make with the Securities and Exchange Commission ("SEC").

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

Overview

The Company reported net income of $4.2 million or $0.21 per diluted share of common stock for the three months ended June 30, 2023 compared to $5.3 million or $0.26 per diluted share of common stock for the three months ended June 30, 2022. Net income for the six months ended June 30, 2023 was $10.0 million or $0.51 per diluted share of common stock compared to $10.1 million or $0.50 per diluted share of common stock for the same period in 2022.

During the second quarter of 2023, the Company repurchased 77,603 shares of Class A common stock at a weighted average price per share of $9.58. The aggregate purchase price for these transactions was approximately $747 thousand, including transaction costs. Year-to-date, the Company has repurchased 577,603 shares at a weighted average price per share of $11.41. These repurchases were made through open market purchase pursuant to the Company's publicly announced repurchase program. As of June 30, 2023, 172,397 shares remain authorized for repurchase under this program.

In evaluating our financial performance, the Company considers the level of and trends in net interest income, the net interest margin, the cost of deposits, 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 June 30, 2023 compared to the quarter ended June 30, 2022 and to December 31, 2022, comparison annualized where appropriate:

- Net interest income for the three months ended June 30, 2023 decreased $1.5 million or 9.4% to $14.2 million from $15.6 million for the quarter ended June 30, 2022. Net interest income for the six months ended in June 30, 2023 increased $149 thousand or 0.5% compared to the same period ended June 30, 2022.

- Net interest margin ("NIM") was 2.73% for the three months ended June 30, 2023 compared to 3.37% for the three months ended June 30, 2022. NIM was 2.97% for the six months ended in June 30, 2023 compared to 3.30% for the same period in 2022.

- Total assets were $2.2 billion at June 30, 2023, representing an increase of $209.8 million or 10.4% from June 30, 2022 and an increase of $140.1 million or 13.5% annualized from December 31, 2022.

- Total loans were $1.6 billion at June 30, 2023, representing an increase of $223.2 million or 16.3% from June 30, 2022 and an increase of $88.6 million or 11.9% annualized from December 31, 2022.

- Total deposits were $1.9 billion at June 30, 2023, representing an increase of $182.6 million or 10.5% from June 30, 2022 and an increase of $92.0 million or 10.1% annualized from December 31, 2022.

- Annualized return on average assets for the quarter ended June 30, 2023 was 0.77% compared to 1.08% for the quarter ended June 30, 2022. Annualized return on average assets was 0.94% for the six months ended June 30, 2023 compared to 1.05% for the same period in 2022.

- Annualized return on average stockholders' equity for the quarter ended June 30, 2023 was 9.13% compared to 11.38% for quarter ended June 30, 2022. Annualized return on average equity was 10.98% for the six months ended June 30, 2023 compared to 10.54% for the same period in 2022.

- The ACL to total loans was 1.18% at June 30, 2023 and 1.16% at December 31, 2022. ACL was calculated under the CECL methodology for three and six months ended June 30, 2023 and the incurred loss methodology for all periods in 2022.

- Non-performing loans to total loans was 0.03% at June 30, 2023 compared to 0.0% at December 31, 2022.

- At June 30, 2023, the total risk-based capital ratios for the Company and the Bank were 13.42% and 13.37%, respectively.

- Tangible book value per common share (non-GAAP financial measurement) of $9.40 as of June 30, 2023 was negatively affected by $2.41 due to after tax unrealized security losses on securities of $47.1 million at June 30, 2023. At June 30, 2022, tangible book value of $9.00 per common share was negatively affected by $1.84 due to $36.9 million after tax unrealized security losses. 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 of which are described in Note 1 "Summary of Significant Accounting Policies" in the Company's 2022 Form 10-K/A. 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 the financial statements. In particular, management has identified accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical in understanding our financial statements. Management has presented the application of these policies to the Audit and Risk Committee of our Board.

Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. See Note 1 "Summary of Significant Accounting Policies" Item 1 of Part I of this Form 10-Q for more information on the adoption ASC 326 and the allowance of credit losses.

Our ACL included residential loans. To assess the potential impact of changes in qualitative factors related to these loans, management performed a sensitivity analysis. The Company evaluated the impact of the HPI used in calculating expected losses on the residential loan segment. As of June 30, 2023, for every 100 basis points increase in the HPI index, the forecast reduces reserves by approximately $240 thousand and about 2 basis points 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.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management is required to assess whether a valuation allowance should be established on the net deferred tax assets based on the consideration of all available evidence using a more likely than not standard. In its evaluation, management considers taxable loss carry-back availability, expectation of sufficient taxable income, trends in earnings, the future reversal of temporary differences, and available tax planning strategies.

The Company recognizes positions taken or expected to be taken in a tax return in accordance with existing accounting guidance on income taxes which prescribes a recognition threshold and measurement process. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other operating non-interest expense, respectively.

Non-GAAP Financial Measures

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

Segment Reporting

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

Results of Operations

General

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

	June 30, 2023	December 31, 2022
Consolidated Balance Sheets:		
Total assets	$ 2,225,914	$ 2,085,834
Total loans [1]	$ 1,595,959	$ 1,507,338
Total deposits	$ 1,921,301	$ 1,829,281
Total stockholders' equity	$ 183,685	$ 182,428

(1) Loan amounts include deferred fees/costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Consolidated Statements of Operations:				
Net interest income before provision for credit losses	$ 14,173	$ 15,642	$ 30,170	$ 30,021
Total non-interest income	$ 1,846	$ 1,617	$ 3,916	$ 3,562
Total non-interest expense	$ 10,452	$ 9,551	$ 20,628	$ 19,163
Net income	$ 4,196	$ 5,295	$ 10,005	$ 10,149
Profitability:				
Efficiency ratio	65.25%	55.34%	60.52%	57.06%
Net interest margin	2.73%	3.37%	2.97%	3.30%

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

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

Net income decreased to $4.2 million for the three months ended June 30, 2023 from $5.3 million for the same period in 2022 mainly due to higher weighted average deposit costs.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

Net income slightly decreased to $10.0 million for the six months ended June 30, 2023 from $10.1 million for the same period in 2022. The main drivers of the slight decrease of net income were a $14.6 million increase in interest income generated from higher loan yields and a bigger loan portfolio, offset by a $14.5 million increase in interest expense mainly due to increases in deposit cost, combined with a $1.5 million increase in non-interest expense.

Net Interest Income

Net interest income is the difference between interest earned on interest-earning assets and interest incurred 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 the 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.

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 June 30,					
	2023			2022		
	Average [1] Balance	Interest	Yield/Rate [2]	Average [1] Balance	Interest	Yield/Rate [2]
Assets						
Interest-earning assets:						
Loans [3]	$ 1,569,266	$ 20,847	5.33%	$ 1,296,476	$ 14,053	4.35%
Investment securities [4]	422,544	2,382	2.26%	493,352	2,510	2.04%
Other interest-earnings assets	87,536	1,051	4.82%	69,503	121	0.70%
Total interest-earning assets	2,079,346	24,280	4.68%	1,859,331	16,684	3.60%
Non-interest-earning assets	104,196			109,050		
Total assets	$ 2,183,542			$ 1,968,381		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing checking	$ 53,561	200	1.50%	$ 66,349	17	0.10%
Saving and money market deposits	940,095	6,968	2.97%	781,076	615	0.32%
Time deposits	277,001	2,145	3.11%	224,284	271	0.48%
Total interest-bearing deposits	1,270,657	9,313	2.94%	1,071,709	903	0.34%
FHLB advances and other borrowings	93,075	794	3.42%	36,330	139	1.53%
Total interest-bearing liabilities	1,363,732	10,107	2.97%	1,108,039	1,042	0.38%
Non-interest-bearing demand deposits	601,778			644,975		
Other non-interest-bearing liabilities	33,794			28,770		
Total liabilities	1,999,304			1,781,784		
Stockholders' equity	184,238			186,597		
Total liabilities and stockholders' equity	$ 2,183,542			$ 1,968,381		
Net interest income		$ 14,173			$ 15,642	
Net interest spread [5]			1.71%			3.22%
Net interest margin [6]			2.73%			3.37%

(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.

	Six Months Ended June 30,					
	2023			2022		
	Average Balance (1)	Interest	Yield/Rate (2)	Average Balance (1)	Interest	Yield/Rate (2)
Assets						
Interest-earning assets:						
Loans (3)	$ 1,558,390	$ 40,558	5.25 %	$ 1,254,189	$ 27,035	4.35 %
Investment securities (4)	422,132	4,668	2.23 %	501,758	4,839	1.94 %
Other interest-earnings assets	65,433	1,433	4.42 %	79,763	152	0.38 %
Total interest-earning assets	2,045,955	46,659	4.60 %	1,835,710	32,026	3.52 %
Non-interest earning assets	106,100			105,374		
Total assets	$ 2,152,055			$ 1,941,084		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing checking	$ 55,812	243	0.88 %	$ 65,398	33	0.10 %
Money market and savings accounts	918,697	11,753	2.58 %	758,729	1,166	0.31 %
Time deposits	251,009	3,202	2.57 %	223,781	530	0.48 %
Total interest-bearing deposits	1,225,518	15,198	2.50 %	1,047,908	1,729	0.33 %
Borrowings and repurchase agreements	77,425	1,291	3.36 %	36,171	276	1.54 %
Total interest-bearing liabilities	1,302,943	16,489	2.55 %	1,084,079	2,005	0.37 %
Non-interest bearing demand deposits	632,901			635,740		
Other non-interest-bearing liabilities	32,404			27,079		
Total liabilities	1,968,248			1,746,898		
Stockholders' equity	183,807			194,186		
Total liabilities and stockholders' equity	$ 2,152,055			$ 1,941,084		
Net interest income		$ 30,170			$ 30,021	
Net interest spread (5)			2.05 %			3.15 %
Net interest margin (6)			2.97 %			3.30 %

(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. 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 June 30, 2023 compared to the three months ended June 30, 2022

Net interest income before the provision for credit losses was $14.2 million for the three months ended June 30, 2023, a decrease of $1.5 million or 9.4%, from $15.6 million for the same period in 2022. The decrease can be attributed to the impact of higher deposit costs, which was a result to the prevailing market interest rate conditions.

Net interest margin was at 2.73% for the quarter ended June 30, 2023 and 3.37% for the same period in 2022. The increase in loan yields as well as yields on other interest-earning assets was offset by higher deposit and borrowing costs.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

Net interest income before the provision for credit losses was $30.2 million for the six months ended June 30, 2023, an increase of $149 thousand or 0.5%, from $30.0 million for the same period in 2022.

Net interest margin decreased to 2.97% for the six months ended June 30, 2023 from 3.30% in the same period in 2022. Overall interest-bearing asset yields grew but were outpaced by the increase in cost of funds.

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 our loan and debt securities portfolio, recent historical and projected future economic conditions, our internal assessment of the credit quality of the loan and debt securities portfolios and net charge-offs.

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

The provision for credit loss was $38 thousand for the three months ended June 30, 2023 compared to $705 thousand for the same period in 2022. Growth in unfunded commitments was the primary driver of the provision expense during the three months ended June 30, 2023 period. The decrease in provision for credit losses in the 2023 period compared to the June 30, 2022 quarter was due to greater loan growth in second quarter 2022.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

The provision for credit loss was $239 thousand for the six months ended June 30, 2023 compared to $705 thousand for the same period in 2022. Decrease of $466 thousand due to higher loan growth in the six months ended June 30, 2022. The ACL as a percentage of total loans increased to 1.18% at June 30, 2023 compared to 1.15% at June 30, 2022.

ACL for the three and six months ended June 30 2023, was estimated under the CECL methodology, and for all periods in 2022, it was estimated under the incurred loss model. See “Allowance for Credit Losses” below for further discussion on how the ACL is calculated.

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 though 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 on 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Service fees	$ 1,173	$ 1,083	$ 2,378	$ 1,983
Gain (loss) on sale of securities available for sale, net	-	(3)	(21)	18
Gain on sale of loans held for sale, net	94	22	441	356
Loan settlement	-	-	-	161
Other non-interest income	579	515	1,118	1,044
Total non-interest income	$ 1,846	$ 1,617	$ 3,916	$ 3,562

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

Non-interest income for the three months ended June 30, 2023 increased $229 thousand or 14.2%, compared to the same period in 2022. This increase was primarily driven by an increase in service fees from a larger deposit portfolio and $72 increase in gain on sale of loans due to higher sales of SBA 7a loans.

Six months ended June 30, 2023 compared to the six months ended June 30, 2022

Non-interest income for the six months ended June 30, 2023 increased $354 thousand or 9.9%, compared to the same period in 2022. This increase was primarily driven by an increase in service fees from a larger deposit portfolio. For the period ended June 30, 2022, the Company recognized $161 thousand interest recovery from a prior lending customer of the Bank. This payment reflected the final payment and settlement of lien judgements against the customer.

Non-Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Salaries and employee benefits	$ 5,882	$ 5,913	$ 12,259	$ 11,788
Occupancy	1,319	1,251	2,618	2,521
Regulatory assessment and fees	452	226	676	439
Consulting and legal fees	386	398	744	915
Network and information technology services	505	448	983	835
Other operating	1,908	1,315	3,348	2,665
Total non-interest expense	$ 10,452	$ 9,551	$ 20,628	$ 19,163

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

Non-interest expense for the three months ended June 30, 2023 increased $901 thousand or 9.4%, compared to the same period in 2022. The increase was primarily driven by an increase in the FDIC deposit insurance assessment rate and audit and tax services expenses and was partially offset by a decrease in the incentive compensation accrual which is included in salary and employee benefits expense.

Six months ended June 30, 2023 compared to the six months ended June 30, 2022

Non-interest expense for the six months ended June 30, 2023 increased $1.5 million or 7.6%, compared to the same period in 2022. The increase was primarily driven by higher salaries and employee benefits expense due to new hires, increased salary compensation and seasonal payroll taxes as well as increases in the FDIC deposit insurance assessment rate, and audit and tax services expense.

Provision for Income Tax

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

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

Income tax expense for the quarter ended June 30, 2023 was $1.3 million as compared to $1.7 million for the same period in 2022. The effective tax rate for the three months ended June 30, 2023 was 24.1% compared to 24.4% for the same period in 2022.

Six months ended June 30, 2023 compared to the six months ended June 30, 2022

Income tax expense for the six months ended June 30, 2023 decreased to $3.2 million from $3.6 million for the same period in 2022. The Company’s effective tax rate was 24.3% for the 2023 period compared to 26.0% for the same period in 2022. The Company’s effective tax rate in the period ended June 30, 2022 was higher primarily because the Company recorded a one-time adjustment of $300 thousand to deferred tax assets which increased the income tax provision.

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

Analysis of Financial Condition

Total assets at June 30, 2023 were $2.2 billion, an increase of $140.1 million, or 13.5% annualized, over total assets of $2.1 billion at December 31, 2022. Total loans, net of unearned fees/cost, increased $88.6 million, or 11.9% annualized, to $1.6 billion at June 30, 2023 compared to $1.5 billion at December 31, 2022. Total deposits increased by $92.0 million, or 10.1% annualized, to $1.9 billion at June 30, 2023 compared to December 31, 2022.

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 Asset and Liability Management ("ALM") policy, which includes investment guidelines, approved by the Board. 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 ALCO. The portfolio of investments also can be used to modify the duration of the balance sheet. The allocation of cash into securities takes into consideration anticipated future cash flows (uses and sources) and all available sources of credit.

Our investment portfolio consists primarily of securities issued by U.S. government-sponsored agencies, U.S. agency mortgage-backed securities, collateralized mortgage obligation securities, 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 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.

ASC Topic 326 amended the existing other-than-temporary-impairment guidance for AFS securities, requiring credit losses to be recorded as an allowance rather than through a permanent write-down. When evaluating AFS debt securities under ASC Topic 326, the Company has evaluated whether the decline in fair value is attributed 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 price depreciations 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.

AFS and HTM investment securities increased $20.6 million, or 9.9% annualized, to $439.4 million at June 30, 2023 from $418.8 million at December 31, 2022. 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 June 30, 2023, investment securities with a market value of $223.2 million were pledged to secure public deposits and BTFP. The investment portfolio does not have any tax-exempt securities.

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

	June 30, 2023		December 31, 2022	
Available-for-sale:	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
U.S. Government Agency	$ 9,906	$ 8,334	$ 10,177	$ 8,655
Collateralized mortgage obligations	107,991	83,883	118,951	95,541
Mortgage-backed securities - residential	71,279	58,099	73,838	60,879
Mortgage-backed securities - commercial	36,775	30,852	32,244	27,954
Municipal securities	25,044	19,091	25,084	18,483
Bank subordinated debt securities	16,836	14,468	15,964	14,919
Corporate bonds	4,033	3,715	4,037	3,709
	$ 271,864	$ 218,442	$ 280,295	$ 230,140
Held-to-maturity:				
U.S. Government Agency	$ 44,404	$ 38,230	$ 44,914	$ 39,062
U.S. Treasury	39,414	39,400	9,841	9,828
Collateralized mortgage obligations	65,844	57,030	68,727	60,925
Mortgage-backed securities - residential	44,834	40,213	42,685	38,483
Mortgage-backed securities - commercial	15,491	14,409	11,442	10,777
Corporate bonds	10,988	10,047	11,090	10,013
	$ 220,975	$ 199,329	$ 188,699	$ 169,088
Allowance for credit losses - securities held-to-maturity	(19)			
Securities held-to maturity, net of allowance for credit losses	$ 220,956			

The following table shows the weighted average yields, categorized by contractual maturity, for investment securities as of June 30, 2023 (in thousands, except ratios):

	Within 1 year		After 1 year through 5 years		After 5 years through 10 years		After 10 years		Total	
	Amortized Cost	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**
Available-for-sale:										
U.S. Government Agency	$ -	0.00%	$ -	0.00%	$ 2,356	3.17%	$ 7,550	2.29%	$ 9,906	2.50%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	107,991	1.40%	107,991	1.40%
MBS - residential	-	0.00%	-	0.00%	-	0.00%	71,279	1.62%	71,279	1.62%
MBS - commercial	-	0.00%	-	0.00%	-	0.00%	36,775	2.17%	36,775	2.17%
Municipal securities	-	0.00%	-	0.00%	1,000	2.05%	24,044	1.73%	25,044	1.74%
Bank subordinated debt securities	-	0.00%	-	0.00%	16,836	4.83%	-	0.00%	16,836	4.83%
Corporate bonds	-	0.00%	4,033	2.50%	-	0.00%	-	0.00%	4,033	2.50%
	$ -		$ 4,033		$ 20,192		$ 247,639		$ 271,864	1.86%
Held-to-maturity:										
U.S. Government Agency	$ -	0.00%	$ 7,915	1.03%	$ 20,358	1.46%	$ 16,131	1.85%	$ 44,404	1.52%
U.S. Treasury	39,414	5.25%	-	0.00%	-	0.00%	-	0.00%	39,414	5.25%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	65,844	1.66%	65,844	1.66%
MBS - residential	-	0.00%	4,497	1.85%	5,933	1.75%	34,404	2.40%	44,834	2.26%
MBS - commercial	-	0.00%	-	0.00%	3,080	1.62%	12,411	2.12%	15,491	2.02%
Corporate bonds	1,502	2.25%	9,486	2.79%	-	0.00%	-	0.00%	10,988	2.72%
	$ 40,916		$ 21,898		$ 29,371		$ 128,790		$ 220,975	2.13%

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 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):

	June 30, 2023		December 31, 2022	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 183,093	11.5 %	$ 185,636	12.3 %
Commercial Real Estate	989,401	62.0 %	970,410	64.4 %
Commercial and Industrial	169,401	10.6 %	126,984	8.4 %
Foreign Banks	85,409	5.4 %	93,769	6.2 %
Consumer and Other	167,845	10.5 %	130,429	8.7 %
Total gross loans	1,595,149	100.0 %	1,507,228	100.0 %
Less: Deferred fees (cost)	(810)		(110)	
Total loans net of deferred fees (cost)	1,595,959		1,507,338	
Less: Allowance for credit losses	18,815		17,487	
Total net loans	$ 1,577,144		$ 1,489,851	

Total loans, net of unearned fees/cost, increased by $88.6 million, or 11.9% annualized, at June 30, 2023 compared to December 31, 2022. The commercial and industrial, and to a lesser extent, consumer and other and commercial real estate segments had the most significant growth partially offset by modest declines in the residential real estate and correspondent bank loan segments.

Our loan portfolio continues to grow, with commercial real estate lending as the primary focus which represented approximately 62.0% of the total gross loan portfolio as of June 30, 2023. 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 June 30, 2023 (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	$ 9,924	$ 15,866	$ 83,937	$ 73,366	$ 183,093
Commercial Real Estate	79,586	167,334	732,553	9,928	989,401
Commercial and Industrial	5,304	36,175	87,463	40,459	169,401
Foreign Banks	85,409	-	-	-	85,409
Consumer and Other	3,037	1,888	11,612	151,308	167,845
Total gross loans	$ 183,260	$ 221,263	$ 915,565	$ 275,061	$ 1,595,149
Interest rate sensitivity:					
Fixed interest rates	$ 161,350	$ 122,412	$ 162,484	$ 164,385	$ 610,631
Floating or adjustable rates	21,910	98,851	753,081	110,676	984,518
Total gross loans	$ 183,260	$ 221,263	$ 915,565	$ 275,061	$ 1,595,149

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 June 30, 2023, approximately 61.7% of the loans have adjustable/variable rates and 38.3% 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.

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):

	June 30, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 183,093	$ -	$ -	$ -	$ 183,093
Commercial Real Estate	986,874	-	2,527	-	989,401
Commercial and Industrial	168,565	-	836	-	169,401
Foreign Banks	85,409	-	-	-	85,409
Consumer and Other	167,845	-	-	-	167,845
	$ 1,591,786	$ -	$ 3,363	$ -	$ 1,595,149

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 185,636	$ -	$ -	$ -	$ 185,636
Commercial Real Estate	967,465	-	2,945	-	970,410
Commercial and Industrial	126,177	-	807	-	126,984
Foreign Banks	93,769	-	-	-	93,769
Consumer and Other	130,233	-	196	-	130,429
	$ 1,503,280	$ -	$ 3,948	$ -	$ 1,507,228

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Non-Performing Assets

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

	June 30, 2023	December 31, 2022
Total non-performing loans	$ 486	$ -
Other real estate owned	-	-
Total non-performing assets	$ 486	$ -
Asset quality ratios: [(1)]		
Allowance for credit losses to total loans	1.18%	1.16%
Allowance for credit losses to non-performing loans	3871%	- %
Non-performing loans to total loans	0.03%	- %

(1) ACL was calculated under CECL methodology for 2023, and incurred loss methodology for 2022

Non-performing assets include all loans categorized as non-accrual or restructured, impaired securities, 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 all principal and interest payments for a period of six months and the Company has a documented expectation of repayment of the remaining contractual principal and interest or the loan becomes secured and in the process of collection.

The Company may grant a loan concession to a borrower experiencing financial difficulties. This determination is performed during the annual review process or whenever problems surface regarding the client'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 of this Form 10-Q.

Allowance for Credit Losses

On January 1, 2023, the Company adopted FASB ASU 2016-13, which introduced the current expected credit losses (CECL) methodology and required us to estimate all expected credit losses over the remaining life of our loan portfolio. Accordingly, 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 allowance for credit losses.

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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 June 30, 2023						
Beginning balance	$ 2,819	$ 10,453	$ 2,367	$ 772	$ 2,476	$ 18,887
Provision for credit losses (1)	(148)	(270)	125	(95)	345	(43)
Recoveries	2	-	8	-	1	11
Charge-offs	-	-	-	-	(40)	(40)
Ending Balance	$ 2,673	$ 10,183	$ 2,500	$ 677	$ 2,782	$ 18,815
Average loans	$ 180,945	983,926	155,241	96,399	152,755	1,569,266
Net charge-offs to average loans	0.00%	-	-0.02%	-	0.10%	0.01%
Six Months Ended June 30, 2023						
Beginning balance	$ 1,352	$ 10,143	$ 4,163	$ 720	$ 1,109	$ 17,487
Cumulative effect of adoption of accounting principle (2)	1,238	1,105	(2,158)	23	858	1,066
Provision for credit losses (3)	73	(1,065)	443	(66)	857	242
Recoveries	10	-	52	-	3	65
Charge-offs	-	-	-	-	(45)	(45)
Ending Balance	$ 2,673	$ 10,183	$ 2,500	$ 677	$ 2,782	$ 18,815
Average loans	$ 188,630	974,149	156,883	92,238	146,490	1,558,390
Net charge-offs to average loans	-0.01%	-	-0.07%	-	0.06%	0.00%

(1) Provision for credit losses excludes $62 thousand expense due to unfunded commitments included in other liabilities and $19 thousand expense due to investment securities held to maturity.
(2) Impact of CECL adoption on January 1, 2023
(3) Provision for credit losses excludes $22 thousand release due to unfunded commitments included in other liabilities and $19 thousand expense due to investment securities held to maturity.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2022						
Beginning balance	$ 2,357	$ 9,183	$ 2,355	$ 491	$ 688	$ 15,074
Provision for credit losses	9	107	311	160	118	705
Recoveries	-	-	5	-	3	8
Charge-offs	-	-	-	-	(1)	(1)
Ending Balance	$ 2,366	$ 9,290	$ 2,671	$ 651	$ 808	$ 15,786
Average loans	$ 198,812	$ 799,846	$ 126,434	$ 76,968	$ 94,416	$ 1,296,476
Net charge-offs to average loans	-	-	-0.02%	-	-0.01%	0.00%
Six Months Ended June 30, 2022						
Beginning balance	$ 2,498	$ 8,758	$ 2,775	$ 457	$ 569	$ 15,057
Provision for credit losses	(148)	532	(115)	194	242	705
Recoveries	32	-	11	-	3	46
Charge-offs	(16)	-	-	-	(6)	(22)
Ending Balance	$ 2,366	$ 9,290	$ 2,671	$ 651	$ 808	$ 15,786
Average loans	$ 198,453	$ 769,978	$ 133,009	$ 68,400	$ 84,349	$ 1,254,189
Net charge-offs to average loans	-0.02%	-	-0.02%	-	0.01%	0.00%

Bank-Owned Life Insurance

As of June 30, 2023, the combined cash surrender value of all bank-owned life insurance ("BOLI") policies was $43.3 million. Changes in cash surrender value are recorded to non-interest income in the unaudited Consolidated Statements of Operations. The Company had BOLI policies with five insurance carriers. The Company is the beneficiary of these policies.

Deposits

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

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

	Three Months Ended June 30,			
	2023		2022	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest-bearing checking	$ 601,778	0.00%	$ 644,975	0.00%
Interest-bearing checking	53,561	1.50%	66,349	0.10%
Money market and savings deposits	940,095	2.97%	781,076	0.32%
Time deposits	277,001	3.11%	224,284	0.48%
Total	$ 1,872,435	1.99%	$ 1,716,684	0.21%

The Company has a granular deposit portfolio with outstanding balances comprised of 50% in commercial deposits, 36% personal deposits, 11% public funds which are partially collateralized and 3% brokered deposits. During the second quarter ended June 30, 2023, the Company acquired $50 million in brokered deposits to boost liquidity. The Company has approximately 20 thousand deposits accounts with the majority in personal accounts, approximately 13 thousand or 64.4%. The estimated average account size of our deposit portfolio is approximately $98 thousand as of June 30, 2023. The Company also offers Insured Cash Sweep ("ICS") and Certificate of Deposit Account Registry Service ("CDARS") deposit products to fully insure our clients.

The uninsured deposits are estimated based on the FDIC deposit insurance limit of $250 thousand for all deposit accounts at the Company per account holder. The total estimated amount of uninsured deposits is 53.2% or $1.0 billion at June 30, 2023.

The following table shows scheduled maturities of uninsured time deposits as of June 30, 2023 (in thousands):

	June 30, 2023
Three months or less	$ 30,409
Over three through six months	17,692
Over six though twelve months	31,672
Over twelve months	11,696
	$ 91,469

Other Liabilities

The Company collects from commercial 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 June 30, 2023 escrow balances totaled $12.1 million compared to $3.5 million at December 31, 2022.

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Borrowings

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

As of June 30, 2023, we had $87.0 million of fixed-rate advances outstanding from the FHLB with a weighted average rate of 3.06%. Maturity dates for the advances range between 2023 to 2028 detailed in the table below.

The following table presents the FHLB fixed rate advances as of June 30, 2023 (in thousands):

Interest Rate	Type of Rate	Maturity Date	Amount
0.81%	Fixed	August 17, 2023	$ 5,000
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
			$ 87,000

We have also established Federal Funds lines of credit with our upstream correspondent banks, the BTFP, and the FRB Atlanta Discount Window to manage temporary fluctuations in our daily cash balances. As of June 30, 2023, there were no outstanding balances with any of these 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 related commitments outstanding as of the dates indicated (in thousands):

	June 30, 2023	December 31, 2022
Commitments to grant loans and unfunded lines of credit	$ 92,910	$ 95,461
Standby and commercial letters of credit	8,344	4,320
Total	$ 101,254	$ 99,781

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, policies, and procedures for managing and mitigating risks are appropriately executed within the designated lines of authority and responsibility in a timely manner.

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

While some degree of IRR ("Interest Rate Risk") is inherent to the banking business, we believe our ALCO has put in place 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, management strategies and client expected behavior.

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

Market and Interest Rate Risk Management

According to our ALCO model, as of June 30, 2023, we had a neutral balance sheet for year one modeling and an asset sensitive balance sheet for year two 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 client 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 June 30, 2023, NIM most likely will remain neutral for year one and should increase for year two under static rate scenarios (an increase or decrease of 400 basis points). For the static forecast in year one, the estimated NIM will decrease from the base case scenario to a +400 basis points scenario. 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 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 defined.

Liquidity

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

Liquidity risk is the risk that we will be unable to meet our short-term and long-term obligations as they become due because of an inability to liquidate assets or obtain relatively adequate funding. The Company's obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and composition, credit 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, or 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, the repayment and maturity of loans and investment security cash flows. Other potential funding sources include federal funds purchased, brokered certificates of deposit, listing services certificate of deposit, the Bank Term Funding Program, 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.

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Capital Adequacy

As of June 30, 2023, the Bank was well capitalized under the FDIC's prompt corrective action framework. We also follow the capital conservation buffer framework, and as of June 30, 2023, we exceeded the capital conversation buffer in all capital ratios, according to our actual ratios. The following table presents the capital ratios for the Bank at the dates indicated (in thousands, except ratios).

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2023						
Total risk-based capital	$ 224,719	13.37 %	$ 134,413	8.00 %	$ 168,017	10.00 %
Tier 1 risk-based capital	$ 205,391	12.22 %	$ 100,810	6.00 %	$ 134,413	8.00 %
Common equity tier 1 capital	$ 205,391	12.22 %	$ 75,607	4.50 %	$ 109,211	6.50 %
Leverage ratio	$ 205,391	9.30 %	$ 88,361	4.00 %	$ 110,451	5.00 %
December 31, 2022:						
Total risk-based capital	$ 216,693	13.58 %	$ 127,616	8.00 %	$ 159,520	10.00 %
Tier 1 risk-based capital	$ 198,909	12.47 %	$ 95,712	6.00 %	$ 127,616	8.00 %
Common equity tier 1 capital	$ 198,909	12.47 %	$ 71,784	4.50 %	$ 103,688	6.50 %
Leverage ratio	$ 198,909	9.56 %	$ 83,210	4.00 %	$ 104,012	5.00 %

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

Impact of Inflation

Our Consolidated Financial Statements and related notes have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Periods of high inflation are often accompanied by relatively higher interest rates, and periods of low inflation are accompanied by relatively lower interest rates. 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 associated 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 this Form 10-Q.

Reconciliation and Management Explanation of Non-GAAP Financial Measures

Management has included these non-GAAP measures because it believes these measures may provide useful supplemental information for evaluating the Company’s underlying performance trends. Further, management uses these measures in managing and evaluating the Company’s business and intends to refer to them in discussions about our operations and performance. Operating performance measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP, and are not necessarily comparable to non-GAAP measures that may be presented by other companies. 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 Ended				
	6/30/2023	3/31/2023	12/31/2022	9/30/2022	6/30/2022
Pre-tax pre-provision ("PTPP") income:(1)					
Net income	$ 4,196	$ 5,809	$ 4,434	$ 5,558	$ 5,295
Plus: Provision for income taxes	1,333	1,881	1,415	1,963	1,708
Plus: Provision for credit losses	38	201	880	910	705
PTPP income	$ 5,567	$ 7,891	$ 6,729	$ 8,431	$ 7,708
PTPP return on average assets:(1)					
PTPP income	$ 5,567	$ 7,891	$ 6,729	$ 8,431	$ 7,708
Average assets	$ 2,183,542	$ 2,120,218	$ 2,051,867	$ 2,026,791	$ 1,968,381
PTPP return on average assets (2)	1.02%	1.51%	1.30%	1.65%	1.57%
Operating net income:(1)					
Net income	$ 4,196	$ 5,809	$ 4,434	$ 5,558	$ 5,295
Less: Net gains (losses) on sale of securities	-	(21)	(1,989)	(558)	(3)
Less: Tax effect on sale of securities	-	5	504	141	1
Operating net income	$ 4,196	$ 5,825	$ 5,919	$ 5,975	$ 5,297
Operating PTPP income:(1)					
PTPP income	$ 5,567	$ 7,891	$ 6,729	$ 8,431	$ 7,708
Less: Net gains (losses) on sale of securities	-	(21)	(1,989)	(558)	(3)
Operating PTPP income	$ 5,567	$ 7,912	$ 8,718	$ 8,989	$ 7,711
Operating PTPP return on average assets:(1)					
Operating PTPP income	$ 5,567	$ 7,912	$ 8,718	$ 8,989	$ 7,711
Average assets	$ 2,183,542	$ 2,120,218	$ 2,051,867	$ 2,026,791	$ 1,968,381
Operating PTPP return on average assets (2)	1.02%	1.51%	1.69%	1.76%	1.57%
Operating return on average assets:(1)					
Operating net income	$ 4,196	$ 5,825	$ 5,919	$ 5,975	$ 5,297
Average assets	$ 2,183,542	$ 2,120,218	$ 2,051,867	$ 2,026,791	$ 1,968,381
Operating return on average assets (2)	0.77%	1.11%	1.14%	1.17%	1.08%
Operating return on average equity:(1)					
Operating net income	$ 4,196	$ 5,825	$ 5,919	$ 5,975	$ 5,297
Average equity	$ 184,238	$ 183,371	$ 177,556	$ 185,288	$ 186,597
Operating return on average equity (2)	9.13%	12.88%	13.23%	12.79%	11.39%
Operating Revenue:(1)					
Net interest income	$ 14,173	$ 15,997	$ 16,866	$ 16,774	$ 15,642
Plus: Non-interest income	1,846	2,070	(123)	1,789	1,617
Less: Net gains (losses) on sale of securities	-	(21)	(1,989)	(558)	(3)
Operating revenue	$ 16,019	$ 18,088	$ 18,732	$ 19,121	$ 17,262
Operating Efficiency Ratio:(1)					
Total non-interest expense	$ 10,452	$ 10,176	$ 10,014	$ 10,132	$ 9,551
Operating revenue	$ 16,019	$ 18,088	$ 18,732	$ 19,121	$ 17,262
Operating efficiency ratio	65.25%	56.26%	53.46%	52.99%	55.33%

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

(2) Annualized.

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

	As of or For the Three Months Ended				
	6/30/2023	3/31/2023	12/31/2022	9/30/2022	6/30/2022
Tangible book value per common share (at period-end):[1]					
Total stockholders' equity	$ 183,685	$ 183,858	$ 182,428	$ 177,417	$ 180,068
Less: Intangible assets	-	-	-	-	-
Tangible stockholders' equity	$ 183,685	$ 183,858	$ 182,428	$ 177,417	$ 180,068
Total shares issued and outstanding (at period-end):					
Total common shares issued and outstanding	19,544,777	19,622,380	20,000,753	20,000,753	20,000,753
Tangible book value per common share[2]	$ 9.40	$ 9.37	$ 9.12	$ 8.87	$ 9.00
Operating diluted net income per common share:[1]					
Operating net income	$ 4,196	$ 5,825	$ 5,919	$ 5,975	$ 5,297
Total weighted average diluted shares of common stock	19,639,682	19,940,606	20,172,438	20,148,208	20,171,261
Operating diluted net income per common share:	$ 0.21	$ 0.29	$ 0.29	$ 0.30	$ 0.26
Tangible Common Equity/Tangible Assets[1]					
Tangible stockholders' equity	$ 183,685	$ 183,858	$ 182,428	$ 177,417	$ 180,068
Tangible assets	$ 2,225,914	$ 2,163,821	$ 2,085,834	$ 2,037,453	$ 2,016,086
Tangible Common Equity/Tangible Assets	8.25%	8.50%	8.75%	8.71%	8.93%

(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.

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 June 30, 2023. Based on that evaluation, management believes that 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 as of the end of the period covered by this Form 10-Q.

Changes in Internal Control Over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

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

PART II

Item 1. Legal Proceedings

On July 13, 2023, three individuals who were shareholders of the Bank prior to its reorganization into the holding company form of organization (the “Plaintiffs”) filed a lawsuit 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 (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 outstanding Class C and Class D preferred stock was exchanged (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 seek the Court to certify the action as a class action and to award damages in an amount to be proven at trial. Plaintiffs seek damages exceeding $750,000 plus attorney’s fees and costs as well as such other relief as the Court may determine. The Company believes that the allegations in the lawsuit are legally and factually without merit, and it intends to vigorously defend against the allegations in the lawsuit, 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 this litigation will be resolved favorably. Furthermore, 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 this litigation. If the plaintiff shareholders are successful, the Court could award substantial compensatory damages.

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 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.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either 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 litigation 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.

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 2022 Form 10-K/A and see “Part II, Item 1A – Risk Factors” of the March 31, 2023 Form 10-Q.

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 June 30, 2023 were as follows:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs (1)
Period				
April 1 - 30, 2023	-	-	-	250,000
May 1 - 31, 2023	46,498	9.38		203,502
June 1 - 30, 2023	31,105	9.89		172,397
	77,603	$ 9.58	-	

(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) Not applicable

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Item 6. Exhibits

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Share Exchange, dated December 27, 2021, by and between U.S. Century Bank and USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
3.1	Articles of Incorporation, as amended, of USCB Financial Holdings, Inc. *
3.2	Amended and Restated Bylaws of USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on July 26, 2023).
4.1	Side Letter Agreement, dated December 30, 2021, between USCB Financial Holdings, Inc., U.S. Century Bank, Priam Capital Fund II, LP, Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
4.2	Registration Rights Agreement, dated March 17, 2015, between U.S. Century Bank, Priam Capital Fund II, LP, Patriot Financial Partners II, L.P., Patriot Financial Partners Parallel II, L.P., and certain other shareholders of U.S. Century Bank (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
4.3	Assignment and Assumption of Agreement, dated December 30, 2021, between U.S. Century Bank and USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
4.4	Description of USCB Financial Holdings, Inc.'s securities (incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (File No. 001-41196) filed with the Securities and Exchange Commission on March 24, 2022)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.**
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 formatted in Inline XBRL: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), (vi) Notes to Consolidated Financial Statements (unaudited).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herby.

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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
/s/ Luis de la Aguilera Luis de la Aguilera	President, Chief Executive Officer, and Director (Principal Executive Officer)	August 11, 2023
/s/ Robert Anderson Robert Anderson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 11, 2023

Exhibit 3.1

ARTICLES OF INCORPORATION, AS AMENDED
OF
USCB FINANCIAL HOLDINGS, INC.

The undersigned, being of legal age and desiring to form a corporation pursuant to the provisions of the Florida Business Corporation Act, as amended, executes the following Articles of Incorporation.

ARTICLE I

The name of the corporation (hereinafter called the "Corporation") is **USCB Financial Holdings, Inc.** The address of the Corporation's principal place of business is 2301 NW 87th Avenue, Doral 33172, in the County of Miami-Dade and State of Florida.

ARTICLE II

The objects, purposes, and powers for which the Corporation is organized are as follows:

(1) to purchase or otherwise acquire, to own and to hold the stock of banks and other corporations, and to do every act and thing covered generally by the denominations "holding corporation", "bank holding company", and "financial holding company", and especially to direct the operations of other entities through the ownership of stock or other interests therein;

(2) to purchase, subscribe for, acquire, own, hold, sell, exchange, assign, transfer, mortgage, pledge, hypothecate or otherwise transfer or dispose of stock, scrip, warrants, rights, bonds, securities or evidences of indebtedness issued or guaranteed by any other corporations, partnerships, limited liability companies, or trusts, or any bonds or evidences of indebtedness of the United States or any other country or jurisdiction, or any state, district, territory, dependency or county or subdivision or municipality thereof, and to issue and exchange therefor cash, capital stock, bonds, notes or other securities, evidences of indebtedness or obligations of the Corporation and while the owner thereof to exercise all rights, powers and privileges of ownership, including the right to vote on any shares of stock, voting trust certificates or other instruments so owned; and

(3) to transact any business, to engage in any lawful act or activity and to exercise all powers permitted to corporations by the Florida Business Corporation Act, as the same exists or may hereafter be amended.

The enumeration herein of the objects, purposes, and powers of the Corporation shall not be deemed to exclude or in any way limit by inference any powers, objects or purposes that the Corporation is empowered to exercise, whether expressly, by purpose or by any of the laws of the State of Florida or any reasonable construction of such laws.

ARTICLE III

The aggregate number of shares of all classes of capital stock which the Corporation shall have authority to issue is 68,600,000, consisting of (i) 53,000,000 shares of common stock, par value $1.00 per share (the "Common Stock"), and (ii) 15,600,000 shares of preferred stock, par value $1.00 per share, except as set forth below or any articles of amendment of any classes or series of preferred stock (the "Preferred Stock").

A. Common Stock

The Common Stock shall consist of two classes of stock: (1) 45,000,000 shares of Class A Voting Common Stock, par value $1.00 per share (the "Voting Common Stock") and (ii) 8,000,000 shares of Class B Non-Voting Common Stock, par value $1.00 per share (the "Non-Voting Common Stock").

Unless otherwise indicated, references to "sections" or "subsections" in this Paragraph A of this Article III refer to sections and subsections of this Paragraph A of this Article III.

1. General

(a) The dividend, liquidation and other rights of the holders of the Common Stock are expressly made subject to and qualified by the rights of the holders of any classes or series of Preferred Stock. Except as set forth below, all shares of Common Stock (whether Voting Common Stock or Non-Voting Common Stock) will be identical and will entitle the holders thereof to the same rights and privileges.

(b) *Definitions.* For purposes of this Paragraph A of this Article III, the following terms shall have the meanings indicated:

(i) "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, including as such term is defined in Section 2(k) of the federal Bank Holding Company Act of 1956, as amended. For the purposes of this definition, "control" when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

(ii) "Beneficially own," "beneficial owner" and "beneficial ownership" and similar terms are defined in Rules 13d-3 and 13d-5 of the Exchange Act.

(iii) "Business Day" means any day other than a Saturday or Sunday, a day on which, in the County of Miami-Dade, State of Florida, banking institutions generally are authorized or obligated by law or executive order to be closed.

(iv) "Conversion Agent" means the Transfer Agent acting in its capacity as conversion agent for the shares of the Non-Voting Common Stock, and its successors and assigns.

(v) "Conversion Date" means, with respect to any given share of Non-Voting Common Stock, the date on which such share of Non-Voting Common Stock has been converted pursuant to Section 3(c)(i).

(vi) "Converted Stock Equivalent Amount" means, for each share of Non-Voting Common Stock, one[1] share of Voting Common Stock; provided that if, after issuance of any Non-Voting Common Stock, the Corporation subdivides or splits its outstanding shares of Voting Common Stock, including by way of a dividend or distribution of Voting Common Stock, or combines its outstanding shares of Voting Common Stock into a lesser number of shares, the "Converted Stock Equivalent Amount" with respect to such issued and outstanding shares of Non-Voting Common Stock shall be proportionately adjusted as if such action applied to the shares of Voting Common Stock represented by the Converted Stock Equivalent Amount.

(vii) "DTC" shall have the meaning set forth in Section 3(c)(ii).

(viii) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

(ix) "Holder" means the Person in whose name shares of the Voting Common Stock or the Non-Voting Common Stock, as the case may be, are registered, who may be treated by the Corporation, Transfer Agent, registrar, paying agent and Conversion Agent as the absolute owner of such stock for all purposes.

(x) "Liquidation Event" means any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Corporation.

(xi) "Person" means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.

(xii) "Senior Stock" means any class or series of capital stock of the Corporation the terms of which expressly provide that such class or series will rank senior to the Voting Common Stock and the Non-Voting Common Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding-up of the Corporation (in each case, without regard to whether dividends accrue cumulatively or non-cumulatively).

(xiii) "Transfer" means any sale, transfer, assignment or other disposition (including by merger, reorganization, operation of law or otherwise).

[1] Articles amended, effective May 24, 2023, to change the conversion ratio from 0.2 to one.

(xiv) "Transfer Agent" means initially the Corporation acting as transfer agent, registrar, paying agent and Conversion Agent and its successors and assigns and thereafter any Person appointed by the Corporation as Transfer Agent.

(xv) "Transfer Certification" shall have the meaning set forth in Section 3(c)(ii).

(xvi) "Voting Group" has the meaning set forth in Section 607.01401(78), Florida Business Corporation Act.

(xvii) "Voting Securities" means capital stock of the Corporation that is then entitled to vote generally in the election of directors of the Corporation.

2. Voting Common Stock

(a) *Voting Rights.* The Holders of record of the Voting Common Stock are entitled to one (1) vote per share on all matters to be voted on by the Corporation's shareholders; provided, that, except as otherwise required by law, Holders of Voting Common Stock, as such, shall not be entitled to vote on any amendment to any provision of these Articles of Incorporation that relates solely to the terms of one or more outstanding classes or series of Preferred Stock or the Non-Voting Common Stock if these Articles of Incorporation provide that only the holders of one or more classes or series of stock of the Corporation not including the Voting Common Stock are entitled to vote thereon.

(b) *Dividends.* Dividends may be declared and paid on the Voting Common Stock from funds lawfully available therefor if, as and when determined by the Board of Directors of the Corporation (the "Board of Directors") in its sole discretion, subject to applicable provisions of Federal and Florida law and of these Articles of Incorporation, as amended from time to time, and subject to the relative rights and preferences of any shares of Non-Voting Common Stock and any shares of Preferred Stock authorized, issued and outstanding hereunder.

(c) *Liquidation Rights.*

(i) Liquidation. In the event of a Liquidation Event, after payment or provision for payment of the debts and other liabilities of the Corporation and after any payment of the prior preferences and other rights of any Senior Stock shall have been made or irrevocably set apart for payment, the assets of the Corporation legally remaining available for distribution to the Corporation's shareholders shall be distributed pro rata among (A) the Holders of Voting Common Stock, (B) the Holders of Non-Voting Common Stock (with each such Holder of Non-Voting Common Stock being treated for this purpose as holding the number of whole shares of Common Stock equal to the product of the Converted Stock Equivalent Amount and the number of such shares of Non-Voting Common Stock immediately prior to such Liquidation Event), and (C) the Holders of any other securities of the Corporation having the right to participate in such distributions upon the occurrence of a Liquidation Event, in accordance with the respective terms thereof.

(ii) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 2(c), the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the Holders of Voting Common Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a Liquidation Event.

3. Non-Voting Common Stock

(a) *Dividends.*

(i) General. Each share of Non-Voting Common Stock shall be entitled to receive, if, as and when declared by the Board of Directors or any duly authorized committee thereof, but only out of assets legally available therefor, dividends or distributions of the same amount, in an identical form of consideration and at the same time, as those dividends or distributions that would have been payable on the number of whole shares of Voting Common Stock equal to the Converted Stock Equivalent Amount (rounding any fractional shares resulting from such computation to the nearest whole number), such that no share of Voting Common Stock shall receive a dividend or distribution unless equivalent dividends or distributions (as described above) are also made with respect to each share of Non-Voting Common Stock, taking into account any adjustment to the Converted Stock Equivalent Amount as provided herein; provided, that the foregoing shall not apply to any dividend or distribution payable in Voting Common Stock that results in an adjustment in the Converted Stock Equivalent Amount, as set forth in Section 1(b)(vi) in the definition of "Converted Stock Equivalent Amount." The Corporation shall not declare a dividend or distribution on the shares of the Voting Common Stock unless a dividend or distribution (as described above) is also declared on the shares of Non-Voting Common Stock in accordance with this Section 3(a)(i). Notwithstanding anything set forth in this Section 3(a)(i), if any dividend or distribution is payable in rights or warrants to subscribe for Voting Common Stock or purchase Voting Common Stock pursuant to a conversion feature in a debt or equity security, the corresponding dividend or distribution payable on the Non-Voting Common Stock shall consist of an identical right or warrant, except that such right or warrant shall be a right or warrant to subscribe for a number of shares of Non-Voting Common Stock equal to the number of shares of Voting Common Stock that would otherwise be subject to such right or warrant. The Non-Voting Common Stock shall have no fixed dividend rate. Each declared dividend or distribution shall be payable to the Holders of record of Non-Voting Common Stock at the same time as dividends or distributions are payable to the Holders of record of Voting Common Stock. The record dates for dividends or distributions to the Holders of Non-Voting Common Stock shall be the same as the record dates for the Voting Common Stock, and vice-versa. The Corporation shall not declare or pay a dividend or distribution to the Holders of the Non-Voting Common Stock other than as expressly provided in this Section 3(a)(i).

(ii) Priority of Dividends. The Non-Voting Common Stock shall rank junior with regard to dividends to the Senior Stock. The Non-Voting Common Stock shall have the same priority, with regard to dividends, as the Voting Common Stock.

(b) *Liquidation Rights.*

(i) Liquidation. In the event of a Liquidation Event, after payment or provision for payment of the debts and other liabilities of the Corporation and after any payment of the prior preferences and other rights of any Senior Stock shall have been made or irrevocably set apart for payment, the assets of the Corporation legally remaining available for distribution to the Corporation's shareholders shall be distributed pro rata among (A) the Holders of Voting Common Stock, (B) the Holders of Non-Voting Common Stock (with each such Holder of Non-Voting Common Stock being treated for this purpose as holding the number of whole shares of Common Stock equal to the product of the Converted Stock Equivalent Amount and the number of such shares of Non-Voting Common Stock immediately prior to such Liquidation Event), and (C) the Holders of any other securities of the Corporation having the right to participate in such distributions upon the occurrence of a Liquidation Event, in accordance with the respective terms thereof.

(ii) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 3(b), the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the Holders of Non-Voting Common Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a Liquidation Event.

(c) *Transfers and Conversion.*

(i) Transfers; Conversion Upon Certain Transfers. The Non-Voting Common Stock may be Transferred only: (A) to an Affiliate of the Holder of Non-Voting Common Stock or to the Corporation; (B) pursuant to a widespread public distribution of Common Stock (including a transfer to an underwriter for the purpose of conducting a widespread public distribution or pursuant to Rule 144 under the Securities Act of 1933, as amended); (C) if no transferee (or group of associated transferees) would receive 2% or more of any class of Voting Securities or (D) to a transferee that would control more than 50% of the Voting Securities without any transfer from the transferor.

Each share of Non-Voting Common Stock shall automatically convert into a number of shares of Voting Common Stock equal to the Converted Stock Equivalent Amount immediately following a Transfer of the type described in clauses (B), (C) or (D) of this Section 3(c)(i). Each certificate representing shares of Non-Voting Common Stock in respect of which a conversion has occurred in accordance with this Section 3(c)(i) shall be deemed to represent the number of shares of Voting Common Stock into which such shares of Non-Voting Common Stock have so converted.

(ii) Transfer Procedures. Upon the physical surrender to the Corporation (or, if the Transfer Agent is not the Corporation, the Transfer Agent) of the certificate representing shares of Non-Voting Common Stock converted pursuant to Section 3(c)(i) above, together with a written certification to the effect that such shares are being Transferred in accordance with clauses (B), (C) or (D) of Section 3(c)(i) above (a "Transfer Certification"), the Corporation will, or will cause the Transfer Agent to, issue and deliver a new certificate, registered as the Holder of Non-Voting Common Stock making the transfer may request, representing the aggregate number of shares of Voting Common Stock issued upon conversion of the shares of Non-Voting Common Stock being Transferred (provided that, if the transfer agent for the Common Stock is participating in The Depository Trust Company ("DTC") Fast Automated Securities Transfer Program and the transferee is eligible to receive shares through DTC, the Transfer Agent shall instead credit such number of full Voting Common Stock to such transferee's balance account with DTC through its Deposit/Withdrawal at Custodian system). In the event that less than all of the shares of Non-Voting Common Stock represented by a certificate are Transferred pursuant to clauses (B), (C) or (D) of Section 3(c)(i) above, the Corporation shall promptly issue a new certificate registered in the name of the transferor Holder of Non-Voting Common Stock representing such remaining shares of Non-Voting Common Stock not subject to such Transfer.

(iii) No Responsibility of the Corporation. In connection with any Transfer or conversion of any shares of Non-Voting Common Stock pursuant to or as permitted by Section 3(c)(i):

(A) The Corporation shall be under no obligation to make any investigation of facts.

(B) Except as otherwise required by law, neither the Corporation nor any director, officer, employee or agent of the Corporation shall be liable in any manner for any action taken or omitted in good faith in connection with the registration of any such Transfer or the issuance of shares of Voting Common Stock in connection with any such conversion.

(iv) Legend. Every certificate representing shares of Non-Voting Common Stock shall bear a legend on the face thereof providing as follows:

"THE SHARES OF NON-VOTING COMMON STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO PROVISIONS WITH RESPECT TO, INCLUDING RESTRICTIONS ON PERMITTED SALE, ASSIGNMENT OR OTHER TRANSFER SET FORTH IN ARTICLE III, PARAGRAPH A, SECTION 3(C)(I), AND ARTICLE X, OF THE CORPORATION'S ARTICLES OF INCORPORATION, INCLUDING A PROVISION PROVIDING FOR AUTOMATIC CONVERSION OF SHARES OF NON-VOTING COMMON STOCK INTO SHARES OF VOTING COMMON STOCK UPON CERTAIN SALES, ASSIGNMENTS OR OTHER TRANSFERS OF THE SHARES."

(v) No Effect on Other Obligations. Nothing contained in this Section 3(c) shall be deemed to eliminate or otherwise modify any other requirements applicable to Transfers under these Articles of Incorporation or applicable law.

(vi) Conversion Date. Effective immediately prior to the close of business on the Conversion Date, dividends shall no longer be declared on any such converted shares of Non-Voting Common Stock, and such shares of Non-Voting Common Stock shall represent only the right to receive shares of Voting Common Stock issuable upon conversion of such shares; provided, that Holders of Non-Voting Common Stock shall have the right to receive any declared and unpaid dividends as of the Conversion Date on such shares and any other payments to which they are otherwise entitled pursuant to the terms hereof.

(vii) Record Holder as of Conversion Date. The Person or Persons entitled to receive shares of Voting Common Stock issuable upon conversion of Non-Voting Common Stock on any applicable Conversion Date shall be treated for all purposes as the record Holder(s) of such shares of Voting Common Stock immediately upon Conversion in accordance with Section 3(c)(i).

(d) *Voting Rights.*

(i) General. The Holders of Non-Voting Common Stock shall be entitled to notice of and attendance at all shareholder meetings at which Holders of shares of Voting Common Stock shall be entitled to vote; provided, that notwithstanding any such notice, except as required by applicable law or as expressly set forth herein, the Holders of Non-Voting Common Stock shall not be entitled to vote on any matter presented to the shareholders of the Corporation for their action or consideration, including the election of directors of the Corporation.

(ii) Protective Consent Rights. In addition to any approval rights that may be required by applicable law, the consent of the Holders of Non-Voting Common Stock representing a majority of the number of shares of Non-Voting Common Stock then issued and outstanding, given in person or by proxy, either in writing or by vote, at a special or annual meeting, voting or consenting as a separate class, shall be necessary to: (A) amend, alter or repeal (including by merger, consolidation or otherwise) any provision of these Articles of Incorporation that significantly and adversely affects the rights, preferences or terms of the Non-Voting Common Stock contained herein in a manner that is different from the effect of such amendment, alteration or repeal on the Voting Common Stock or (B) liquidate, dissolve or windup the business and affairs of the Corporation.

(iii) Action by Written Consent. Any action, including any vote required or permitted to be taken at any annual or special meeting of shareholders of the Corporation, that requires a separate vote of the Holders of Non-Voting Common Stock voting as a Voting Group, may be adopted or taken by such Holders without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so adopted or taken, are signed by Holders of Non-Voting

Common Stock having not less than the minimum number of votes that would be required to adopt or take such action at a meeting at which all shares of Non-Voting Common Stock entitled to vote thereon were present and voted, and is delivered to the Corporation by delivery to the Corporate Secretary of the Corporation at its principal executive office.

(e) *Subdivision; Stock Splits; Combinations.* The Corporation shall not at any time subdivide (by any stock split, stock dividend, recapitalization or otherwise) its outstanding shares of Non-Voting Common Stock into a greater number of shares, or combine (by combination, reverse stock split or otherwise) its outstanding shares of Non-Voting Common Stock into a smaller number of shares.

(f) *Reclassification, Consolidation, Merger or Sale.* In the event of any merger, consolidation, share exchange, reclassification or other similar transaction in which the shares of Voting Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, each share of Non-Voting Common Stock will at the same time be similarly exchanged or changed in an amount equal to the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, based upon the Converted Stock Equivalent Amount immediately prior to such transaction; provided that at the election of such Holder of Non-Voting Common Stock, any securities issued with respect to the Non-Voting Common Stock shall be non-voting securities under the resulting corporation's organizational documents and the Corporation shall make appropriate provisions (in form and substance reasonably satisfactory to the Holders of at least a majority of the Non-Voting Common Stock then outstanding) and take such actions necessary to ensure that Holders of the Non-Voting Common Stock shall retain securities with substantially the same privileges, limitations and relative rights as the Non-Voting Common Stock. Subject to the foregoing, in the event the Holders of Voting Common Stock are provided the right to convert or exchange Voting Common Stock for stock or securities, cash and/or any other property, then the Holders of the Non-Voting Common Stock shall be provided the same right based upon the Converted Stock Equivalent Amount immediately prior to such transaction. In the event that the Corporation offers to repurchase shares of Voting Common Stock from its shareholders generally, the Corporation shall offer to repurchase Non-Voting Common Stock pro rata based upon the Converted Stock Equivalent Amount of such Holders of Non-Voting Common Stock immediately prior to such repurchase. In the event of any pro rata subscription offer, rights offer or similar offer to holders of Voting Common Stock, the Corporation shall provide the Holders of the Non-Voting Common Stock the right to participate based upon the Converted Stock Equivalent Amount immediately prior to such offering; provided that at the election of such Holder, any shares issued with respect to the Non-Voting Common Stock shall be issued in the form of Non-Voting Common Stock rather than Voting Common Stock.

(g) *Unissued or Reacquired Shares.* Shares of Non-Voting Common Stock that have been issued and converted, redeemed or otherwise purchased or acquired by the Corporation shall, upon the taking of any action required by law, automatically revert to authorized but unissued shares of Non-Voting Common Stock.

(h) *Reservation of Voting Common Stock.*

(i) Sufficient Shares. The Corporation shall at all times reserve and keep available out of its authorized and unissued shares of Voting Common Stock or shares of Voting Common Stock acquired by the Corporation, solely for issuance upon the conversion of shares of Non-Voting Common Stock as provided in this Article III, Paragraph A, Section 3, free from any preemptive or other similar rights, such number of shares of Voting Common Stock as shall from time to time be issuable upon the conversion of all the shares of Non-Voting Common Stock then outstanding.

(ii) Free and Clear Delivery. All shares of Voting Common Stock delivered upon conversion of the shares of Non-Voting Common Stock, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances (other than liens, charges, security interests and other encumbrances created by the Holders thereof).

(iii) Compliance with Law. Prior to the delivery of any Voting Common Stock that the Corporation shall be obligated to deliver upon conversion of the Non-Voting Common Stock, the Corporation shall use its reasonable best efforts to comply with any federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(i) *Transfer Agent, Conversion Agent, Registrar and Paying Agent.* The duly appointed Transfer Agent, Conversion Agent, registrar and paying agent, as applicable, for the Common Stock shall initially be the Corporation. The Corporation may appoint a successor Transfer Agent that shall accept such appointment prior to the effectiveness of such removal. Upon any such appointment, the Corporation shall send notice thereof to the Holders of Common Stock.

(j) *Mutilated, Destroyed, Stolen and Lost Certificates.* If physical certificates are issued, the Corporation shall replace any mutilated certificate at the Holder's expense upon surrender of that certificate to the Transfer Agent. The Corporation shall replace any certificate that becomes destroyed, stolen or lost, at the Holder's expense, upon delivery to the Corporation and the Transfer Agent of satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity and bond that may be required by the Transfer Agent or the Corporation.

(k) *No Closing of Books; Cooperation.* The Corporation shall not close its books against the Transfer of shares of Non-Voting Common Stock or of shares of Voting Common Stock issued or issuable upon conversion of Non-Voting Common Stock in any manner which interferes with the timely conversion of Non-Voting Common Stock. The Corporation shall assist and cooperate with any Holder of Non-Voting Common Stock required to make any governmental filings or obtain any governmental approval or non-objection prior to or in connection with any conversion of Non-Voting Common Stock hereunder (including, without limitation, making any governmental filings required to be made by the Corporation), but the Corporation shall not be obligated to reimburse any such Holder for expenses incurred in connection therewith.

(l) *Taxes.*

(i) Transfer Taxes. The Corporation shall pay any and all stock transfer, documentary, stamp and similar taxes that may be payable in respect of any issuance or delivery of shares of Non-Voting Common Stock or Voting Common Stock issued on account of Non-Voting Common Stock pursuant hereto or certificates representing such shares; provided, that the Corporation shall not be required to pay any such tax that may be payable in respect of any Transfer involved in the issuance or delivery of shares in a name other than that in which the shares of Non-Voting Common Stock involved were registered, or in respect of any payment to any Person other than a payment to the registered Holder thereof, and shall not be required to make any such issuance or delivery unless and until it is satisfied that any such tax for which the Corporation is not responsible has been or will be paid.

(ii) Withholding. All payments and distributions (or deemed distributions) on the shares of Non-Voting Common Stock (and on the shares of Voting Common Stock received upon their conversion) shall be subject to withholding and backup withholding of tax to the extent required by law, subject to applicable exemptions, and amounts withheld, if any, shall be treated as received by the Holders thereof.

B. Preferred Stock

1. General

Subject to applicable law, to these Articles of Incorporation and to the Corporation's Bylaws, the Board of Directors is authorized, at any time or from time to time, to issue Preferred Stock and: (i) to provide for the issuance of shares of Preferred Stock in one or more classes or series, and any restrictions on the issuance or reissuance of any additional Preferred Stock; (ii) to determine the designation for any such classes or series by number, letter or title that shall distinguish such classes or series from any other classes or series, respectively, of Preferred Stock; (iii) to establish from time to time the number of shares to be included in any such class or series, including a determination that such class or series shall consist of a single share, or that the number of shares shall be decreased (but not below the number of shares thereof then outstanding); and (iv) to determine with respect to the shares of any class or series of Preferred Stock the terms, powers, preferences, qualifications, limitations, restrictions and relative, participating, optional or other special rights of the shares of such class or series of Preferred Stock, including, but not limited to:

(a) whether, with respect to shares entitled to dividends, the holders thereof shall be entitled to cumulative, noncumulative or partially cumulative dividends, the dividend rate or rates (including the methods and procedures for determining such rate or rates), and any other terms and conditions relating to such dividends (including the relation which such dividends shall bear to the dividends payable on any other class or series of the Corporation's capital stock);

(b) whether, and, if so, to what extent and upon what terms and conditions, the holders thereof shall be entitled to rights upon the voluntary or involuntary liquidation, dissolution or winding-up of, or upon any distribution of the assets of, the Corporation;

(c) whether, and, if so, upon what terms and conditions, such shares shall be convertible into, or exchangeable for, other securities or property;

(d) whether, and, if so, upon what terms and conditions, such shares shall be redeemable by the Corporation;

(e) whether the shares shall be subject to any sinking fund provided for the purchase or redemption of such shares and, if so, the terms and amount of such fund;

(f) whether the holders thereof shall be entitled to voting rights and, if so, the terms and conditions for the exercise thereof; and

(g) whether the holders thereof shall be entitled to other relative, participating, optional or other special powers, preferences or rights and, if so, the qualifications, limitations and restrictions of such preferences or rights.

ARTICLE IV

The term for which the Corporation shall exist shall be perpetual.

ARTICLE V

A. Management. The management of the business and the conduct of the affairs of the Corporation shall be vested in the Board of Directors. The initial Board of Directors of the Corporation shall consist of seven (7) directors. The name and street address of the initial director of this Corporation is:

Name	Address
Luis de la Aguilera	2301 NW 87th Avenue, Doral, Florida 33172
Aida Levitan	2301 NW 87th Avenue, Doral, Florida 33172
Ramón Abadin	2301 NW 87th Avenue, Doral, Florida 33172
Howard P. Feinglas	2301 NW 87th Avenue, Doral, Florida 33172
Bernardo Fernandez, M.D.	2301 NW 87th Avenue, Doral, Florida 33172
Wayne K. Goldstein	2301 NW 87th Avenue, Doral, Florida 33172
W. Kirk Wycoff	2301 NW 87th Avenue, Doral, Florida 33172

B. Number of Directors; Election; Tenn. Subject to the rights of holders of any class or series of Preferred Stock with respect to the election of directors, the number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the Bylaws of the Corporation. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide. Notwithstanding the foregoing provisions of this Section B, and subject to the rights of holders of any class or series of Preferred Stock with respect to the election of directors, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

C. Removal. Subject to the rights of holders of any class or series of Preferred Stock with respect to the election of directors, a director may be removed from office by the affirmative vote of holders of shares of capital stock issued and outstanding and entitled to vote in an election of Directors representing at least a majority of the votes entitled to be cast thereon, and then, only for cause:

D. Amendment of Bylaws. Subject to the restrictions set forth in these Articles of Incorporation, the power to adopt, amend or repeal the Bylaws of the Corporation may be exercised by the Board of Directors.

ARTICLE VI

A. No Action by Written Consent of Shareholders. Except as otherwise expressly provided by the terms of the Non-Voting Common Stock and any class or series of Preferred Stock permitting the holders of the Non-Voting Common Stock or such class or series of Preferred Stock, as the case may be, to act by written consent, any action required or permitted to be taken by shareholders of the Corporation must be effected at a duly called annual or special meeting of the shareholders and may not be effected by written consent in lieu of a meeting.

B. Special Meetings. Except as otherwise expressly provided by the terms of any class or series of Preferred Stock permitting the holders of such class or series of Preferred Stock to call a special meeting of the holders of such class or series, special meetings of shareholders of the Corporation may be called by the Board of Directors or any one or more shareholders owning, in the aggregate, not less than ten percent of the Voting Common Stock. The Board of Directors may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the shareholders.

C. Fractional Shares. Shares of Common Stock or Preferred Stock may be issued in fractions of a share which shall entitle the holder thereof, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of shares of such Common Stock or Preferred Stock, as the case may be.

D. Exclusion of Statutory Provisions Relating to Affiliate Transactions and Control Share Acquisitions. Sections 607.0901 and 607.0902 of the Florida Business Corporation Act shall not apply to the Corporation.

E. Notices. Unless otherwise provided herein, all notices referred to herein shall be in writing, and, unless otherwise specified herein, all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or five days after its deposit in the U.S. mail if sent by registered or certified mail with postage prepaid, or the date shown on the return receipt if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee, addressed: (i) if to the Corporation, to the principal executive office of the Corporation or to the transfer agent at its principal office in the United States of America, (ii) if to any holder, to such holder at the address of such holder as listed in the stock record books of the Corporation, or (iii) to such other address as the Corporation or any such holder, as the case may be, shall have designated by notice similarly given.

ARTICLE VII

A. Indemnification. To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) the directors, officers, employees and agents of the Corporation (and any other persons to which the applicable provisions of the Florida Business Corporation Act or any other applicable law not in conflict therewith permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of shareholders or disinterested directors, or otherwise.

B. Priority of Indemnification. The Corporation acknowledges that the directors nominated by the Priam Capital Fund II, LP. ("Priam") and Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P. (collectively, "Patriot") (each an "Investor Director") may have certain rights to indemnification, advancement of expenses and/or insurance provided by the Priam and Patriot and/or certain of their respective affiliates (collectively, the "Investor Indemnitors"). The Corporation hereby agrees (1) that it is the indemnitor of first resort (i.e., its obligations to each Investor Director are primary and any obligation of Investor Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by any Investor Director are secondary), and (2) that it shall be required to advance the full amount of expenses incurred by each Investor Director and shall be liable for the full amount of all expenses and liabilities, in each case, to the extent permitted by law, without regard to any rights an Investor Director may have against any Investor Indemnitor. The Corporation further agrees that no advancement or payment by any Investor Indemnitor on behalf of any Investor Director with respect to any claim for which such Investor Director has sought indemnification from the Corporation shall affect the foregoing and Investor Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of such Investor Director against the Corporation.

C. Limitation of Personal Liability. To the fullest extent permitted by applicable law as the same exists or hereafter may be amended, no director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. If applicable provisions of the Florida Business Corporations Act or any other applicable law not in conflict therewith are amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the applicable provisions of the Florida Business Corporations Act and such other applicable law, as so amended. No amendment, modification or repeal of this paragraph or any adoption of any other provision of these Articles of Incorporation inconsistent with this paragraph shall apply to or adversely affect any right or protection of a director of the Corporation existing at the time of such amendment, modification, repeal or adoption with respect to any acts or omissions of such director occurring prior to such amendment, modification, repeal or adoption.

ARTICLE VIII

The Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation (including any rights, preferences or other designations of Preferred Stock), in the manner now or hereafter prescribed by these Articles of Incorporation and the Florida Business Corporations Act; and all rights, preferences and privileges herein conferred upon shareholders by and pursuant to this Articles of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article VIII. Notwithstanding any other provision of these Articles of Incorporation to the contrary, and in addition to any other vote that may be required by law or the terms of these Articles of Incorporation, the affirmative vote of the holders of at least sixty six and two-thirds percent (66 2/3%) of the then outstanding shares of Voting Common Stock, voting together as a single class, shall be required to (i) amend, alter or repeal, or adopt any provision as part of this Articles of Incorporation inconsistent with the purpose and intent of, Article IV, Article V, Article VI, Article VII, this Article VIII or Article X (including, without limitation, any such Article as renumbered as a result of any amendment, alteration, change, repeal or adoption of any other Article) or (ii) amend, alter or repeal, or adopt any provision as part of these Articles of Incorporation or the Corporation's Bylaws inconsistent with the purpose and intent of, Sections 2.1, 2.2 and 2.12 or Articles VII or IX (including, without limitation, any such Article or Section as renumbered as a result of any amendment, alteration, change, repeal or adoption of any other Article or Section) of the Corporation's Bylaws.

ARTICLE IX

Notwithstanding anything in these Articles to the contrary, the Corporation and the members of the Board of Directors (the "Directors") shall at all times comply with the requirements of Sections 655.0385 and 655.0386 of the Florida Statutes. The Corporation acknowledges that the Directors and their respective affiliates and related investment funds may review the business plans and related proprietary information of other enterprises which may have products or services which may or may not compete directly or indirectly with those of the Corporation and its subsidiaries, and may trade in the securities of such enterprises. No Directors, any of their respective affiliates or related investment funds shall be precluded or in any way restricted from investing or participating in any particular enterprise, or trading in the securities thereof whether or not such enterprise has products or services that compete with those of the Corporation and its subsidiaries and affiliates. The Corporation expressly acknowledges and agrees that: (a) the Directors and their respective affiliates have the right to, and shall have no duty (contractual or otherwise) not to, directly or indirectly, engage in the same or similar business activities or lines of business as the Corporation and its subsidiaries and affiliates; and (b) in the event that any Director or its affiliates acquires knowledge of a potential transaction or matter that may be a corporate opportunity for the Corporation or any of its subsidiaries or affiliates, such Director or its affiliate shall have no duty (contractual or otherwise) to communicate or present such corporate opportunity to the Corporation or any of its subsidiaries and affiliates, and, notwithstanding any provision of this Articles of Incorporation, the Bylaws or applicable law to the contrary, shall not be liable to the Corporation or any of its subsidiaries or affiliates or the shareholders of the Corporation for breach of any duty (contractual or otherwise) by reason of the fact that such Director or any of its affiliates thereof, directly or indirectly, pursues or acquires such opportunity for itself, directs such opportunity to another person, or does not present such opportunity to the Corporation.

ARTICLE X

A. Certain Definitions. For purposes of this Article X, the following terms shall have the meanings indicated (and any references to any portions of Treasury Regulation § 1.3822T shall include any successor provisions):

1. "Affiliate" shall have the meanings set forth in Rule 12b-2 under the Securities Exchange Act of 1934, as amended.

2. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

3. "Entity" means an "entity" as defined in Treasury Regulation § 1.382-3(a).

4. "Expiration Date" means the earlier of (A) January 1, 2035, (B) the repeal of Section 382 of the Code or any successor statute if the Board of Directors determines that this Article X is no longer necessary for the preservation of Tax Benefits and (C) the beginning of a taxable year of the Corporation to which the Board of Directors determines that no Tax Benefits may be carried forward, unless the Board of Directors shall fix an earlier or later date in accordance with Article X, Section G.

5. "Five-Percent Shareholder" means an individual, an Entity or a Public Group" whose Ownership Interest Percentage is greater than or equal to 5% or who would be treated as a "5-percent shareholder" under Section 382 of the Code and applicable Treasury Regulations. For purposes of determining whether a Person is a Five-percent Shareholder, any options (as defined in Treasury Regulations) treated as owned by such Person shall be deemed exercised if the result is to cause such Person to be treated as a Five-percent Shareholder.

6. "Large Investor" means any Person that is identified as a Large Investor in a stock purchase agreement between such Person and the Corporation.

7. "Option" shall have the meaning set forth in Treasury Regulation §§1.382-2T(h)(4)(v) and 1.382-4(d)(9).

8. "Ownership Interest Percentage" means, as of any determination date, the percentage of the Corporation's issued and outstanding Stock (not including treasury shares or shares subject to vesting in connection with compensatory arrangements with the Corporation) that an individual or Entity would be treated as owning for purposes of Section 382 of the Code, applying the following additional rules: (A) in the event that such individual or Entity, or any Affiliate of such individual or Entity, owns or is party to an Option with respect to Stock (including, for the avoidance of doubt, any cash-settled derivative contract that gives such individual or Entity a "long" exposure with respect to Stock), such individual, Entity or affiliate will be treated as owning an amount of Stock equal to the number of shares referenced by such Option, (B) for purposes of applying Treasury Regulation § 1.382-2T(k)(2), the Corporation shall be treated as having "actual knowledge" of the beneficial ownership of all outstanding shares of Stock that would be attributed to any such individual or Entity, (C) Section 382(l)(3)(A)(ii)(II) of the Code shall not apply and (D) any additional rules the Board of Directors may establish from time to time.

9. "Permissible Transferee" means a transferee that, immediately prior to any transfer, has an Ownership Interest Percentage equal to (A) zero percentage points, plus (B) any percentage attributable to a prior transfer from, or attribution of ownership from, a Large Investor or another Permissible Transferee.

10. "Person" means any individual, Entity, firm, corporation, partnership, trust association, limited liability company, limited liability partnership, governmental entity or other entity and shall include any successor (by merger or otherwise) of any such entity.

11. "Prohibited Transfer" means any purported transfer of Stock to the extent that such transfer is prohibited under this Article X.

12. "Public Group" means a "public group" as defined in Treasury Regulation §1.382-2T(f)(13).

13. "Stock" means (A) shares of Common Stock, (B) shares of Preferred Stock (other than shares of any class of Preferred Stock described in Section 1504(a)(4) of the Code) and (C) any other interest (other than any Option) that would be treated as "stock" of the Corporation pursuant to Treasury Regulation § 1.382-2T(f)(18).

14. "Tax Benefit" means the net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any potential loss or deduction attributable to an existing "net unrealized built-in loss" within the meaning of Section 382 of the Code, of the Corporation or any direct or indirect subsidiary thereof.

15. "Transfer" refers to any means of conveying record, beneficial or tax ownership (applying, in the case of tax ownership, applicable attribution rules for purposes of Section 382 of the Code) of Stock, whether such means is direct or indirect, voluntary or involuntary. A Transfer also shall include the creation or grant of an option (including an option within the meaning of Treasury Regulations § 1.382-2T(h)(4)(v) and § 1.382-4(d)(9)).

16. "Transferee" means any Person to whom any such security is transferred.

17. "Treasury Regulations" means the regulations, including temporary regulations or any successor regulations promulgated under the Code, as amended from time to time.

B. Transfer Restrictions. Solely for the purpose of permitting the utilization of the Tax Benefits to which the Corporation (or any other member of the consolidated group of which the Corporation is the common parent for U.S. federal income tax purposes) is or may be entitled pursuant to the Code and the regulations thereunder, the following restrictions shall apply until the Expiration Date, unless the Board of Directors has waived any such restrictions in accordance with Article X, Section G:

1. From and after the effective date of this Articles of Incorporation and prior to the Expiration Date, except as otherwise provided in this Article X, Section (B)(1), no individual or Entity other than the Corporation shall, except as provided in Article X, Section (C)(1) below, transfer to any individual or Entity any direct or indirect interest in any Stock or Options to acquire Stock to the extent that such transfer, if effective, would cause the Ownership Interest Percentage of the transferee or any other individual, Entity

or Public Group to increase to 4.95 percent (4.95%) or above, or from 4.95% or above to a greater Ownership Interest Percentage or to the extent that such transfer would constitute a transfer to a Five-Percent Shareholder. Nothing in this Article X shall preclude the settlement of any transaction with respect to the Stock entered into through the facilities of any national securities exchange or over-the-counter market; provided, however, that the fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article X and the securities involved in such transaction, and the purported transferor and Purported Acquiror (as defined below) thereof, shall remain subject to the provisions of this Article X in respect of such transaction.

2. From and after the effective date of this Articles of Incorporation and prior to the Expiration Date, except as otherwise provided in this Article X, Section (C)(2), no Five-Percent Shareholder shall, except as provided in Article X, Section (C)(2) below, transfer to any individual or Entity any direct or indirect interest in any Stock or Options to acquire Stock owned by such Five-Percent Shareholder without the prior approval of the Board of Directors. Nothing in this Article X shall preclude the settlement of any transaction with respect to the Stock entered into through the facilities of any national securities exchange or over-the-counter market; provided, however, that the fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article X, and the securities involved in such transaction, and the purported transferor and Purported Acquiror (as defined below) thereof, shall remain subject to the provisions of this Article X in respect of such transaction.

C. Permitted Transfers.

1. Any transfer that would otherwise be prohibited pursuant to Article X, Section (B)(1) shall nonetheless be permitted if (A) such transfer is made by a Large Investor to a Large Investor or a Permissible Transferee or by a Permissible Transferee to a Large Investor or a Permissible Transferee, (B) prior to such transfer being consummated (or, in the case of an involuntary transfer, as soon as practicable after the transaction is consummated), the Board of Directors, in its sole discretion, approves the transfer (such approval may relate to a transfer or series of identified transfers), (C) such transfer is pursuant to any transaction, including, but not limited to, a merger or consolidation, in which all holders of Stock receive, or are offered the same opportunity to receive, cash or other consideration for all such Stock, and upon the consummation of which the acquiror will own at least a majority of the outstanding shares of Stock, or (D) such transfer is a transfer by the Corporation to an underwriter or placement agent for distribution in a public offering, whether registered or conducted pursuant to an exception from registration; provided, however, that transfers by such underwriter or placement agent to purchasers in such offering remain subject to this Article X. In determining whether to approve a proposed transfer pursuant to Article X, Section (C)(1)(B), the Board of Directors may, in its sole discretion, require (at the expense of the transferor and/or transferee) an opinion of counsel or an independent nationally recognized accounting firm selected by the Board of Directors on any matter, which may include an opinion with respect to the transfer not causing an "ownership change" or an "owner shift" within the meaning of Section 382 of the Code.

2. Any transfer that would otherwise be prohibited pursuant to Article X, Section (B)(2) shall nonetheless be permitted, provided that it is otherwise permitted by Article X, Section (B)(1), if applicable, if (A) such transfer is made by a Large Investor or a Permissible Transferee, (B) prior to such transfer being consummated (or, in the case of an involuntary transfer, as soon as practicable after the transaction is consummated), the Board of Directors, in its sole discretion, approves the transfer (such approval may relate to a transfer or series of identified transfers) or (C) such transfer is pursuant to any transaction, including, but not limited to, a merger or consolidation, in which all holders of Stock receive, or are offered the same opportunity to receive, cash or other consideration for all such Stock, and upon the consummation of which the acquiror will own at least a majority of the outstanding shares of Stock. In determining whether to approve a proposed transfer pursuant to Article X, Section (C)(2)(B), the Board of Directors may, in its sole discretion, require (at the expense of the transferor and/or transferee) an opinion of counsel or an independent nationally recognized accounting firm selected by the Board of Directors on any matter, which may include an opinion with respect to the transfer not causing an "ownership change" or an "owner shift" within the meaning of Section 382 of the Code.

3. The Board of Directors may exercise the authority granted by this Article X, Section C through duly authorized officers or agents of the Corporation. The Board of Directors may establish a committee to determine whether to approve a proposed transfer or for any other purpose relating to this Article X. As a condition to the Corporation's consideration of a request to approve a proposed transfer, the Board of Directors may require the transferor and/or transferee to reimburse or agree to reimburse the Corporation, on demand, for all costs and expenses incurred by the Corporation with respect to such proposed transfer, including, without limitation, the Corporation's costs and expenses incurred in determining whether to authorize such proposed transfer.

D. Treatment of Prohibited Transfers. Unless the transfer is permitted as provided in Article X, Section C, any attempted transfer of Stock or Options in excess of the Stock or Options that could be transferred to the transferee without restriction under Article X, Section (B)(1) shall be prohibited, shall be null and void ab initio and shall not be effective to transfer ownership of such excess Stock or Options (the "Prohibited Shares") to the purported acquiror thereof (the "Purported Acquiror"), who shall not be entitled to any rights as a shareholder of the Corporation with respect to such Prohibited Shares (including, without limitation, the right to vote or to receive dividends with respect thereto).

1. Upon demand by the Corporation, the Purported Acquiror shall, within thirty (30) days of the date of such a demand, transfer or cause to be transferred any certificate or other evidence of purported ownership of Prohibited Shares within the Purported Acquiror's possession or control, along with any dividends or other distributions paid by the Corporation with respect to any Prohibited Shares that were received by the Purported Acquiror (the "Prohibited Distributions"), to such Person as the Corporation shall designate to act as transfer agent for such Prohibited Shares (the "Agent"). If the Purported Acquiror has sold any Prohibited Shares to an unrelated party in an arm's-length transaction after purportedly acquiring them, the Purported Acquiror shall be

deemed to have sold such Prohibited Shares for the Agent, and in lieu of transferring such Prohibited Shares (and Prohibited Distributions with respect thereto) to the Agent shall transfer to the Agent any such Prohibited Distributions and the proceeds of such sale (the "Resale Proceeds") except to the extent that the Agent grants written permission to the Purported Acquiror to retain a portion of such Resale Proceeds not exceeding the amount that would have been payable by the Agent to the Purported Acquiror pursuant to Article X, Section (D)(2) below if such Prohibited Shares had been sold by the Agent rather than by the Purported Acquiror. Any purported transfer of Prohibited Shares by the Purported Acquiror other than a transfer described in one of the first two sentences of this Article X, Section (D)(1) shall not be effective to transfer any ownership of such Prohibited Shares.

2. The Agent shall sell in one or more arm's-length transactions any Prohibited Shares transferred to the Agent by the Purported Acquiror, provided, however, that any such sale must not constitute a Prohibited Transfer and provided, further, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Stock or otherwise would adversely affect the value of the Stock. The proceeds of such sale (the "Sales Proceeds"), or the Resale Proceeds, if applicable, shall be used to pay the expenses of the Agent in connection with its duties under this Article X, Section D with respect to such Prohibited Shares, and any excess shall be allocated to the Purported Acquiror up to the following amount: (A) where applicable, the purported purchase price paid or value of consideration surrendered by the Purported Acquiror for such Prohibited Shares; and (B) where the purported transfer of Prohibited Shares to the Purported Acquiror was by gift, inheritance, or any similar purported transfer, the fair market value (as determined in good faith by the Board of Directors) of such Prohibited Shares at the time of such purported transfer. Subject to the succeeding provisions of this Article X, Section (D)(2), any Resale Proceeds or Sales Proceeds in excess of the amount allocable to the Purported Acquiror pursuant to the preceding sentence, together with any Prohibited Distributions, shall be transferred to an entity described in Section 501(c)(3) of the Code and selected by the Board of Directors or its designee; provided, however, that if the Prohibited Shares (including any Prohibited Shares arising from a previous Prohibited Transfer not sold by the Agent in a prior sale or sales) represent a 4.95% or greater Ownership Interest Percentage, then any such remaining amounts to the extent attributable to the disposition of the portion of such Prohibited Shares exceeding a 4.94% Ownership Interest Percentage shall be paid to two or more organizations qualifying under Section 501(c)(3) selected by the Board of Directors. In no event shall any such amounts described in the preceding sentence inure to the benefit of the Purported Acquiror, the Corporation or the Agent, but such amounts may be used to cover expenses incurred by the Agent in connection with its duties under this Article X, Section D with respect to the related Prohibited Shares. Notwithstanding anything in this Article X to the contrary, the Corporation shall at all times be entitled to make application to any court of equitable jurisdiction within the State of Florida for an adjudication of the respective rights and interests of any Person in and to any Sale Proceeds, Resale Proceeds and Prohibited Distributions pursuant to this Article X and applicable law and for leave to pay such amounts into such court.

3. Within thirty (30) business days of learning of a purported transfer of Prohibited Shares to a Purported Acquiror, the Corporation through its Secretary shall demand that the Purported Acquiror surrender to the Agent the certificates representing the Prohibited Shares, or any Resale Proceeds, and any Prohibited Distributions, and if such surrender is not made by the Purported Acquiror, the Corporation may institute legal proceedings to compel such transfer; provided, however, that nothing in this Article X, Section (D)(3) shall preclude the Corporation in its discretion from immediately bringing legal proceedings without a prior demand, and provided, further that failure of the Corporation to act within the time periods set out in this paragraph (c) shall not constitute a waiver of any right of the Corporation to compel any transfer required by Article X, Section (D)(1).

4. Upon a determination by the Corporation that there has been or is threatened a purported transfer of Prohibited Shares to a Purported Acquiror, the Corporation may take such action in addition to any action permitted by the preceding paragraph as it deems advisable to give effect to the provisions of this Article X, including, without limitation, refusing to give effect on the books of this Corporation to such purported transfer or instituting proceedings to enjoin such purported transfer.

E. Transferee Information. The Corporation may require as a condition to the approval of the transfer of any shares of its Stock or Options to acquire Stock pursuant to this Article X that the proposed transferee furnish to the Corporation all information requested by the Corporation and available to the proposed transferee and its affiliates with respect to the direct or indirect ownership interests of the proposed transferee (and of Persons to whom ownership interests of the proposed transferee would be attributed for purposes of Section 382 of the Code) in Stock or other options or rights to acquire Stock.

F. Legend on Certificates. All certificates evidencing ownership of shares of Stock that are subject to the restrictions on transfer contained in this Article X shall bear a conspicuous legend referencing the restrictions set forth in this Article X as follows:

"THE ARTICLES OF INCORPORATION OF THE CORPORATION, AS AMENDED, CONTAIN RESTRICTIONS PROHIBITING THE TRANSFER OF STOCK (INCLUDING THE CREATION OR GRANT OF CERTAIN OPTIONS, RIGHTS AND WARRANTS) WITHOUT THE PRIOR AUTHORIZATION OF THE BOARD OF DIRECTORS OF THE CORPORATION IF SUCH TRANSFER AFFECTS THE PERCENTAGE OF STOCK OF THE CORPORATION THAT IS TREATED AS OWNED BY A FIVE-PERCENT SHAREHOLDER. IF THE TRANSFER RESTRICTIONS ARE VIOLATED, THEN THE TRANSFER WILL BE VOID AB INITIO AND THE PURPORTED ACQUIROR OF THE STOCK WILL BE REQUIRED TO TRANSFER SUFFICIENT SECURITIES TO CAUSE THE FIVE-PERCENT SHAREHOLDER TO NO LONGER BE IN VIOLATION OF THE TRANSFER RESTRICTIONS. THE CORPORATION WILL FURNISH WITHOUT CHARGE TO THE HOLDER OF RECORD OF THIS CERTIFICATE A COPY OF ITS ARTICLES OF INCORPORATION, CONTAINING THE ABOVE REFERENCED TRANSFER RESTRICTIONS, UPON WRITTEN REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS."

G. Waiver of Article X. The Board of Directors may, at any time prior to the Expiration Date, waive this Article X in respect of any or all transfers notwithstanding the effect or potential effect of such waiver on the Tax Benefits if it determines that such waiver is in the best interests of the Corporation, including as may be necessary for the safety and soundness of the Corporation or to comply with any order issued by an applicable bank regulatory authority. Any such determination to waive this Article X in respect of any or all transfers shall be filed with the Secretary of the Corporation. Nothing in this Article X shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

H. Board Authority.

1. The Board of Directors shall have the power to determine, in its sole discretion, all matters necessary for assessing compliance with this Article X, including, without limitation, the identification of Five-Percent Shareholders with respect to the Corporation within the meaning of Section 382 of the Code and the regulations thereunder; the owner shifts, within the meaning of Section 382 of the Code, that have previously taken place; the magnitude of the owner shift that would result from the proposed transaction; the effect of any reasonably foreseeable transactions by the Corporation or any other Person (including any transfer of Stock or Options to acquire Stock that the Corporation has no power to prevent, without regard to any knowledge on the part of the Corporation as to the likelihood of such transfer); the possible effects of an ownership change within the meaning of Section 382 of the Code and any other matters which the Board of Directors determines to be relevant. Moreover, the Corporation and the Board of Directors shall be entitled to rely in good faith upon the information, opinions, reports or statements of the chief executive officer, the chief financial officer, and the chief accounting officer of the Corporation and of the Corporation's legal counsel, independent auditors, transfer agent, investment bankers, and other employees and agents in making the determinations and findings contemplated by this Article X to the fullest extent permitted by law. Any determination by the Board of Directors pursuant to this Article X shall be conclusive and binding on the Corporation, the Agent, and all other parties for all purposes of this Article X.

2. Nothing contained in this Article X shall limit the authority of the Board of Directors to take such other action, in its sole discretion, to the extent permitted by law as it deems necessary or advisable to preserve the Tax Benefits.

3. In the case of an ambiguity in the application of any of the provisions of this Article X, including any definition used herein, the Board of Directors shall have the power to determine, in its sole discretion, the application of such provisions with respect to any situation based on its belief, understanding or knowledge of the circumstances. In the event this Article X requires an action by the Board of Directors but fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine, in its sole discretion, the action to be taken so long as such action is not contrary to the provisions of this Article X. All such actions, calculations, interpretations and determinations which are done or made by the Board of Directors

shall be conclusive and binding on the Corporation, the Agent, and all other parties for all purposes of this Article X.

I. Liability. To the fullest extent permitted by law, any shareholder subject to the provisions of this Article X who knowingly violates the provisions of this Article X and any Persons controlling, controlled by or under common control with such shareholder shall be jointly and severally liable to the Corporation for, and shall indemnify and hold the Corporation harmless against, any and all damages suffered as a result of such violation, including but not limited to damages resulting from a reduction in, or elimination of, the Corporation's ability to utilize its Tax Benefits, and attorneys' and auditors' fees incurred in connection with, resulting from or that are in any way attributable to such violation.

J. Severability. If any provision of this Article X or any application of such provision is determined to be invalid by any federal or state court having jurisdiction over the issue, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

K. Benefits of Article X. Nothing in this Article X shall be construed to give to any Person other than the Corporation or the Agent any legal or equitable right, remedy or claim under this Article X. This Article X shall be for the sole and exclusive benefit of the Corporation and the Agent.

ARTICLE XI

The initial registered office of this Corporation shall be located at the City of Doral, the County of Miami-Dade, State of Florida, and its address there shall be, at present, 2301 N.W. 87th Avenue, Doral, Florida 33172, and the initial registered agent of the Corporation at that address shall be Jalal Shehadeh. The Corporation may change its registered agent or the location of its registered office, or both, from time to time without amendment of these Articles of Incorporation.

ARTICLE XII

The name and street address of the person signing these Articles of Incorporation as Incorporator are: 2301 N.W. 87th Avenue, Doral, Florida 33172.

IN WITNESS WHEREOF, the undersigned does hereby make and file these Articles of Incorporation declaring and certifying that the facts stated here are true, and hereby subscribes thereto and hereunto sets his hand this 18 day of November, 2021.

/s/ Luis de la Aguilera
Luis de la Aguilera

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to the Articles of Incorporation to be signed by its duly authorized officer this 24th day of May, 2023.

USCB FINANCIAL HOLDINGS, INC.

By: /s/ Jalal Shehadeh
Name: Jalal Shehadeh
Title: Executive Vice President and General Counsel

CERTIFICATE DESIGNATING PLACE OF BUSINESS FOR THE SERVICE OF PROCESS WITHIN FLORIDA AND REGISTERED AGENT UPON WHOM PROCESS MAY BE SERVED

In compliance with Sections 48.091 and 607.0501. Florida Statutes, the following is submitted:

USCB Financial Holdings, Inc. (the "Corporation") desiring to organize as a domestic corporation or qualify under the laws of the State of Florida has named and designated Jalal Shehadeh as its Registered Agent to accept service of process within the State of Florida with its registered office located at 2301 NW 87th Avenue, Doral, Florida 33172.

ACKNOWLEDGMENT

Having been named as Registered Agent for the Corporation at the place designated in this Certificate, I hereby agree to act in this capacity; and I am familiar with and accept the obligations relating to service as a registered agent, as the same may apply to the Corporation; and I further agree to comply with the provisions of Florida Statutes, Section 48,091 and all other statutes, all as the same may apply to the Corporation relating to the proper and complete performance of my duties as Registered Agent.

Dated this 18th day of November, 2021.

/s/ Jalal Shehadeh
Jalal Shehadeh, Registered Agent

Exhibit 31.1

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

I, Luis de la Aguilera, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USCB Financial Holdings, Inc.;

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

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

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

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

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

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

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

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

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

/s/ Luis de la Aguilera

Luis de la Aguilera
President and Chief Executive Officer

Date: August 11, 2023

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 a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

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

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

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

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

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

/s/ Robert Anderson
Robert Anderson
Chief Financial Officer

Date: August 11, 2023

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 for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Luis de la Aguilera, as President and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Luis de la Aguilera

Luis de la Aguilera
President and Chief Executive Officer

Date: August 11, 2023

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 for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), 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 condition and results of operations of the Company.

/s/ Robert Anderson
Robert Anderson
Chief Financial Officer

Date: August 11, 2023