UNITED STATES
FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20549

FORM 10-Q

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

OR

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

For the quarterly period ended June 30, 2021

FDIC Certificate Number: 57369

U.S. Century Bank

(Exact name of registrant as specified in its charter)

Florida	**52-2371258**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2301 NW 87th Ave **Miami, FL**	**33172**
(Address of principal executive offices)	(Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

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

Class	Trading Symbol	Name of Exchange on Which Registered
Class A common stock, $1.00 Par Value	USCB	The Nasdaq Stock Market LLC

The number of outstanding shares of the registrant Class A common stock, $1.00 par value, as of August 13, 2021 was 18,767,541.

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

U.S. CENTURY BANK AND SUBSIDIARIES

Consolidated Balance Sheets - Unaudited

(Dollars in thousands, except per share data)

	June 30, 2021	December 31, 2020
Assets:		
Cash and due from banks	$ 7,411	$ 9,828
Interest-bearing deposits in banks	39,706	37,906
Total cash & cash equivalents	47,117	47,734
Investment securities, at fair value	395,804	334,322
Federal Home Loan Bank stock, at cost	2,100	2,711
Loans held for investment, net of allowance of $14,848 and $15,086	1,130,247	1,023,418
Accrued interest receivable	5,612.00	5,547
Property and equipment, net	5,289	6,347
Assets held for sale	656	-
Bank owned life insurance	26,296	25,961
Deferred tax asset	37,891	39,159
Lease right-of-use asset	13,100	14,513
Other assets	2,893	2,030
Total assets	$ 1,667,005	$ 1,501,742
Liabilities:		
Deposits:		
Demand	$ 555,994	$ 442,467
Money market and savings accounts	609,121	527,373
Interest-bearing checking accounts	47,455	45,132
Time deposits over $250,000	112,920	104,140
Time deposits $250,000 or less	113,286	154,290
Total deposits	1,438,776	1,273,402
Federal Home Loan Bank advances	36,000	36,000
Lease liability	13,100	14,513
Accrued interest and other liabilities	12,827	6,826
Total liabilities	1,500,703	1,330,741
Commitments and contingencies (see Note 7 and Note 9)		
Stockholders' Equity:		
Preferred stock - Class C; $1.00 par value; $1,000 per share liquidation preference; 52,748 shares authorized, issued, and outstanding as of June 30, 2021 and December 31, 2020	12,325	12,325
Preferred stock - Class D; $1.00 par value; $5.00 per share liquidation preference; 12,309,480 shares authorized; 12,290,631 issued and outstanding as of June 30, 2021 and December 31, 2020	12,291	12,291
Preferred stock - Class E; $1.00 par value; $1,000 per share liquidation preference; 3,185,024 shares authorized; 0 and 7,500 issued and outstanding as of June 30, 2021 and December 31, 2020	-	7,461
Common stock - Class A Voting; $1.00 par value; 20,000,000 shares authorized; 3,889,469 issued and outstanding as of June 30, 2021 and December 31, 2020 [(1)]	3,889	3,889
Common stock - Class B Non-voting; $1.00 par value; 8,000,000 shares authorized; 6,121,052 issued and outstanding as of June 30, 2021 and December 31, 2020	6,121	6,121
Additional paid-in capital on common stock	177,852	177,755
Accumulated deficit	(46,362)	(53,622)
Accumulated other comprehensive income	186	4,781
Total stockholders' equity	166,302	171,001
Total liabilities and stockholders' equity	$ 1,667,005	$ 1,501,742

(1) Class A common stock authorized, outstanding and additional paid-in-capital for December 31, 2020 were adjusted to reflect the 1 for 5 reverse stock split. See Note 11 "Stockholders' Equity" for further discussion on the stock split.

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

U.S. CENTURY BANK AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income - Unaudited

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest income:				
Loans, including fees	$ 11,538	$ 11,974	$ 23,406	$ 23,710
Investment securities	1,968	1,218	3,812	2,482
Interest-bearing deposits in financial institutions	23	67	39	209
Total interest income	13,529	13,259	27,257	26,401
Interest expense:				
Interest-bearing deposits	15	44	29	90
Savings and money markets accounts	523	763	1,071	1,890
Time deposits	379	1,306	933	2,718
Federal Home Loan Bank advances	138	275	275	718
Total interest expense	1,055	2,388	2,308	5,416
Net interest income before provision for loan losses	12,474	10,871	24,949	20,985
Provision for (recovery of) loan losses	-	1,750	(160)	3,250
Net interest income after provision for loan losses	12,474	9,121	25,109	17,735
Non-interest income:				
Service fees	903	581	1,792	1,459
Gain on sale of securities available for sale, net	187	5	249	423
Gain on sale of loans held for sale, net	23	-	987	228
Other non-interest income	403	371	809	758
Total non-interest income	1,516	957	3,837	2,868
Non-interest expense:				
Salaries and employee benefits	5,213	4,792	10,491	9,862
Occupancy	1,411	1,436	2,798	2,835
Regulatory assessment and fees	195	165	373	341
Consulting and legal fees	373	270	558	429
Network and information technology services	332	412	840	749
Other operating	1,150	1,090	2,291	2,175
Total non-interest expense	8,674	8,165	17,351	16,391
Net income before income tax expense	5,316	1,913	11,595	4,212
Income tax expense	1,263	469	2,761	1,033
Net income	4,053	1,444	8,834	3,179
Preferred stock dividend	754	782	1,535	1,563
Net income available to common stockholders	$ 3,299	$ 662	$ 7,299	$ 1,616
Per share information:				
Class A common stock (1)				
Basic net income per share of common stock	$ 0.65	$ 0.13	$ 1.43	$ 0.32
Diluted net income per share of common stock	$ 0.64	$ 0.13	$ 1.41	$ 0.31
Class B common stock				
Basic net income per share of common stock	$ 0.13	$ 0.03	$ 0.29	$ 0.06
Diluted net income per share of common stock	$ 0.13	$ 0.03	$ 0.29	$ 0.06
Other comprehensive income:				
Net change in unrealized gain (loss) on AFS securities	$ 233	$ 6,241	$ (5,837)	$ 5,194
Realized gains on AFS securities	(187)	(5)	(249)	(423)
Tax effect	(12)	(1,529)	1,491	(1,170)
Other comprehensive income (loss)	34	4,707	(4,595)	3,601
Comprehensive income	$ 4,087	$ 6,151	$ 4,239	$ 6,780

(1) Adjusted for 1 for 5 reverse stock split. See Note 11 "Stockholders' Equity" for further discussion on the stock split.

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

U.S. CENTURY BANK AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity - Unaudited

(Dollars in thousands, except per share data)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Accumulated Other	
	Shares	Par Value	Shares	Par Value	Common Stock	Deficit	Comprehensive Income	Total
Balance at April 1, 2021	12,350,879	$ 32,077	25,568,147	$ 25,568	$ 162,250	$ (49,622)	$ 152	$ 170,425
Reverse stock split 1 for 5 Common A	-	-	(15,557,626)	(15,558)	15,558	-	-	-
Adjusted balance at April 1, 2021	12,350,879	32,077	10,010,521	10,010	177,808	(49,622)	152	170,425
Net income	-	-	-	-	-	4,053	-	4,053
Other comprehensive income	-	-	-	-	-	-	34	34
Dividends - preferred stock	-	-	-	-	-	(754)	-	(754)
Preferred Stock repurchase	(7,500)	(7,461)	-	-	-	(39)	-	(7,500)
Stock based compensation	-	-	-	-	44	-	-	44
Balance at June 30, 2021	12,343,379	$ 24,616	10,010,521	$ 10,010	$ 177,852	$ (46,362)	$ 186	$ 166,302
Balance at April 1, 2020 [1]	12,350,879	$ 32,077	10,008,521	$ 10,008	$ 177,619	$ (60,361)	$ 851	$ 160,194
Net income	-	-	-	-	-	1,444	-	1,444
Other comprehensive income	-	-	-	-	-	-	4,707	4,707
Dividends - preferred stock	-	-	-	-	-	(782)	-	(782)
Stock based compensation	-	-	-	-	52	-	-	52
Balance at June 30, 2020	12,350,879	$ 32,077	10,008,521	$ 10,008	$ 177,671	$ (59,699)	$ 5,558	$ 165,615

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Accumulated Other	
	Shares	Par Value	Shares	Par Value	Common Stock	Deficit	Comprehensive Income	Total
Balance at January 1, 2021	12,350,879	$ 32,077	25,568,147	$ 25,568	$ 162,197	$ (53,622)	$ 4,781	$ 171,001
Reverse stock split 1 for 5 Common A	-	-	(15,557,626)	(15,558)	15,558	-	-	-
Adjusted balance at January 1, 2021	12,350,879	32,077	10,010,521	10,010	177,755	(53,622)	4,781	171,001
Net income	-	-	-	-	-	8,834	-	8,834
Other comprehensive loss	-	-	-	-	-	-	(4,595)	(4,595)
Dividends - preferred stock	-	-	-	-	-	(1,535)	-	(1,535)
Preferred stock repurchase	(7,500)	(7,461)	-	-	-	(39)	-	(7,500)
Stock based compensation	-	-	-	-	97	-	-	97
Balance at June 30, 2021	12,343,379	$ 24,616	10,010,521	$ 10,010	$ 177,852	$ (46,362)	$ 186	$ 166,302
Balance at January 1, 2020 [1]	12,350,879	$ 32,077	10,008,521	$ 10,008	$ 177,555	$ (61,315)	$ 1,957	$ 160,282
Net income	-	-	-	-	-	3,179	-	3,179
Other comprehensive income	-	-	-	-	-	-	3,601	3,601
Dividends - preferred stock	-	-	-	-	-	(1,563)	-	(1,563)
Stock based compensation	-	-	-	-	116	-	-	116
Balance at June 30, 2020	12,350,879	$ 32,077	10,008,521	$ 10,008	$ 177,671	$ (59,699)	$ 5,558	$ 165,615

(1) Common stock shares, par value, and additional paid-in capital for common stock for 2020 was adjusted to reflect the 1 for 5 reverse stock split. See Note 11 "Stockholders' Equity" for further details.

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

U.S. CENTURY BANK AND SUBSIDIARIES

Consolidated Statements of Cash Flows - Unaudited

(Dollars in thousands)

	Six Months Ended	
	2021	2020
Cash flows from operating activities:		
Net income	$ 8,834	$ 3,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(160)	3,250
Depreciation and amortization	642	624
Amortization of premiums on securities, net	192	165
Accretion of deferred loan fees, net	(2,016)	(1,190)
Stock based compensation	97	116
Gain on sales of available for sale securities	(249)	(423)
Gains on sale of loans held for sale	(987)	(228)
Increase in cash surrender value of bank owned life insurance	(335)	(361)
Decrease in deferred tax asset	2,760	1,034
Net change in operating assets and liabilities:		
Accrued interest receivable	(65)	(1,135)
Other assets	(863)	747
Accrued interest and other liabilities	6,001	3,711
Net cash provided by operating activities	13,851	9,489
Cash flows from investing activities:		
Purchase of available for sale securities	(138,937)	(24,142)
Proceeds from maturities and pay-downs of available for sale securities	28,159	19,816
Proceeds from sales of available for sale securities	43,266	11,084
Proceeds from call of available for sale securities	-	2,140
Net decrease in loans held for investment	(68,609)	(53,164)
Purchase of loans held for investment	(44,868)	-
Additions to property and equipment	(240)	(204)
Proceeds from the sale of loans held for sale	9,811	2,441
Proceeds from the redemption of Federal Home Loan Bank stock	611	2,706
Net cash used in investment activities	(170,807)	(39,323)
Cash flows from financing activities:		
Cash dividends paid	(1,535)	(1,563)
Repurchase of Preferred stock Class E	(7,500)	-
Net increase in deposits	165,374	179,223
Proceeds from Federal Home Loan Bank advances	-	63,000
Repayments on Federal Home Loan Bank advances	-	(130,000)
Net cash provided by financing activities	156,339	110,660
Net increase (decrease) in cash and cash equivalents	(617)	80,826
Cash and cash equivalents at beginning of year	47,734	35,741
Cash and cash equivalents at end of year	$ 47,117	$ 116,567
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,359	$ 5,564
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans held for investment to loans held for sale	$ 8,824	$ 2,213
Transfer of property and equipment to assets held for sale	$ 656	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidated Financial Statement Presentation

The accompanying unaudited interim financial statements as of and for the period ended June 30, 2021 and 2020 do not include all the information and footnotes required by the U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the Bank's consolidated financial statements and related notes for the year ended December 31, 2020.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions based on available information that affect the amounts reported in the financial statements and the disclosures provided.

The coronavirus ("COVID-19") pandemic has negatively affected many of the Bank's clients and the economy. The resulting recession, increased unemployment levels, temporary closure, and limited service capacity of many businesses along with the implementation of social distancing and travel restrictions has and may continue to have a negative impact on many of the Bank's customers. The ultimate extent of the impact caused by this pandemic on the economy, financial markets, clients, employees, and vendors which will affect the Bank's business, financial condition and results of operations will depend on various developments including vaccination and infectious rates.

Future increases in the allowance for credit losses ("ACL") may be required as a result of the economic downturn and those increases can be material. It is difficult to quantify the impact that COVID-19 will have on the estimates and assumptions used to prepare the financial statements. Actual results could differ from those estimates.

Cash Flow Statement

The Bank reports the net activity rather than gross activity in the consolidated statement of cash flows. The net cash flows are reported for loans held for investment, accrued interest receivable, deferred tax asset, other assets, customer deposits, accrued interest payable and other liabilities.

Concentration of Credit Risks

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted and any collateral or security proved to be insufficient to cover the loss. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty.

Most of the Bank's business activity is with customers located within its primary market area, which generally includes Miami-Dade County, Florida. The Bank's loan portfolio is concentrated largely in real estate and commercial loans in South Florida. Many of the Bank's loan customers are engaged in real estate development. Circumstances, which negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

At June 30, 2021 and December 31, 2020, the Bank had a concentration of risk with loans outstanding to the Bank's top ten lending relationships totaling $153.4 million and $141.5 million, respectively. At June 30, 2021 and December 31, 2020, this concentration represented 13.6% and 13.8%, respectively, of the net loans outstanding, respectively.

At June 30, 2021, the Bank also had a concentration of risk with loans outstanding totaling $58.9 million to foreign banks located in Ecuador and El Salvador. At December 31, 2020, the Bank also had a concentration of risk with loans outstanding totaling $33.8 million to foreign banks located in Ecuador and Honduras. These Banks maintained deposits with right of offset totaling $25.5 million and $13.2 million at June 30, 2021 and December 31, 2020, respectively.

At various times during the year, the Bank has maintained deposits with other financial institutions. The exposure to the Bank from these transactions is solely dependent upon daily balances and the financial strength of the respective institution.

Federal Home Loan Bank Stock

Federal Home Loan Bank of Atlanta ("FHLB") stock is a restricted asset, carried at cost, and evaluated for impairment based on ultimate recovery of par. As of June 30, 2021 and December 31, 2020, FHLB stock amounted to $2.1 million and $2.7 million, respectively. As of June 30, 2021 and December 31, 2020, FHLB stock was not deemed impaired by the Bank. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance

Bank owned life insurance ("BOLI") is carried at the amount that could be realized under the contract at the balance sheet date, which is typically cash surrender value. Changes in cash surrender value are recorded in noninterest income. These policies cover certain present and former executives and officers, the Bank is the beneficiary of these policies.

Earnings per Common Share

Basic earnings per common share is net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share included the effect of additional potential common shares issuable under vested stock options. Basic and diluted earnings per share are updated to reflect the effect of stock splits as occurred. See Note 12 "Earnings Per Share" for additional information on earnings per common share. See Note 11 "Stockholders' Equity" for further discussion on stock splits.

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 Bank.

Recently Issued Accounting Standards

<u>Measurement of Credit Losses on Financial Instruments</u>

In June 2016, the FASB issued an accounting standard update ("ASU") on accounting for current expected credit losses on financial instruments ("CECL") which will replace the current probable incurred loss impairment methodology in US GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those years. Early adoption is permitted for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. The Bank is expecting to adopt the CECL accounting standard on January 1, 2023. The impact of adoption on the Bank's financial statements will depend on the composition of the loan portfolio as of January 1, 2023, general economic conditions, and other factors that are not known at this time.

<u>Reference Rate Reform</u>

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 March 12, 2020 through December 31, 2022. The Bank is evaluating the impact of this ASU and has not yet determined whether LIBOR transition and this ASU will have material effects on our business operations and consolidated financial statements.

2. INVESTMENT SECURITIES

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of securities available for sale ("AFS") are as follows (in thousands):

	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency - SBA	$ 12,074	$ 139	$ -	$ 12,213
U.S. Government Agency	17,991	-	(520)	17,471
Collateralized mortgage obligations	133,270	92	(1,845)	131,517
Mortgage-backed securities - Residential	106,476	734	(1,528)	105,682
Mortgage-backed securities - Commercial	45,201	1,428	(170)	46,459
Municipal securities	28,822	5	(863)	27,964
Bank subordinated debt securities	24,004	1,346	(13)	25,337
Corporate bonds	27,720	1,441	-	29,161
	$ 395,558	$ 5,185	$ (4,939)	$ 395,804

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency - SBA	$ 1,488	$ 64	$ -	$ 1,552
U.S. Government Agency	20,196	4	(168)	20,032
Collateralized mortgage obligations	104,426	386	(162)	104,650
Mortgage-backed securities - Residential	80,110	1,368	(177)	81,301
Mortgage-backed securities - Commercial	45,802	2,549	(20)	48,331
Municipal securities	24,230	39	(58)	24,211
Bank subordinated debt securities	24,004	631	(5)	24,630
Corporate bonds	27,733	1,882	-	29,615
	$ 327,989	$ 6,923	$ (590)	$ 334,322

The proceeds, realized gross gains and realized gross losses on AFS securities are as follows (in thousands):

	June 30, 2021	June 30, 2020
Proceeds from sales and call of securities	$ 43,266	$ 13,224
Gross Gains	$ 438	$ 423
Gross Losses	$ (189)	$ -

The amortized cost and fair value of AFS debt securities at June 30, 2021, by contractual maturity, are shown below (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.

	June 30, 2021	
	Amortized Cost	Fair Value
Due within one year	$ 3,988	$ 4,068
Due after one year through five years	18,673	19,731
Due after five years through ten years	31,681	33,020
Due after ten years	26,204	25,643
U.S Government Agency - SBA	12,074	12,213
U.S Government Agency	17,991	17,471
Collateralized mortgage obligations	133,270	131,517
Mortgage-backed securities - Residential	106,476	105,682
Mortgage-backed securities - Commercial	45,201	46,459
	$ 395,558	$ 395,804

As of June 30, 2021 and December 31, 2020, there were no holdings of securities to any one issuer, in an amount greater than 10% of total stockholder's equity other than the United States Government and Government Agencies. All the collateralized mortgage obligations and mortgage-backed securities are United States sponsored entities for June 30, 2021 and December 31, 2020.

Information pertaining to AFS securities with gross unrealized losses at June 30, 2021 and December 31, 2020, aggregated by investment category and length of time those individual securities have been in a continuous loss position, are as follows (in thousands):

	June 30, 2021			December 31, 2020		
	Less than Twelve Months			Less than Twelve Months		
	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities
U.S. Government Agency	$ 17,471	$ (520)	6	$ 14,030	$ (168)	5
Collateralized mortgage obligations	123,233	(1,845)	27	49,185	(162)	10
Mortgage-backed securities - Residential	76,637	(1,528)	24	41,611	(177)	10
Mortgage-backed securities - Commercial	17,785	(170)	4	8,219	(20)	2
Municipal securities	26,959	(863)	17	3,878	(58)	3
Bank subordinated debt securities	987	(13)	1	995	(5)	1
	$ 263,072	$ (4,939)	79	$ 117,918	$ (590)	31

There were no individual AFS securities with a continuous, unrealized loss for twelve months or more at June 30, 2021 and December 31, 2020.

The Bank performs a review of the investments that have an unrealized loss to determine whether there have been any changes in the economic circumstance of the security issuer to indicate that the unrealized loss is impaired on an other-than-temporary basis. Management considers several factors in their analysis including (1) severity and duration of the impairment, (2) credit rating of security including any downgrade, (3) intent and if it is more likely than not that the Bank could hold the security for a period of time to recover the value of the security, (4) whether there have been any payment defaults and (5) underlying guarantor of the securities.

The Bank does not consider these investments to be other-than-temporarily impaired ("OTTI") as the decline in market value is attributable to changes in market interest rates and not credit quality, and because the Bank does not intend to sell the investments before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities before maturity.

At June 30, 2021, the Bank 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. At June 30, 2021, the Bank did not have any securities pledged under this agreement.

In 2018, the Bank became a Qualified Public Depositor ("QPD") with the State of Florida. As a QPD the Bank has the authority to legally 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 50% of the outstanding uninsured deposits. The Bank must also maintain a minimum amount of pledged securities to be in the program.

At June 30, 2021, the Bank had five Corporate Bonds with a fair value of $9.8 million pledged to the State of Florida under the public funds program. The Bank held a total of $13.2 million in public funds at June 30, 2021.

At December 31, 2020, the Bank had four Corporate Bonds with a fair value of $7.8 million pledged to the State of Florida under the public funds program. The Bank held a total of $14.1 million in public funds at December 31, 2020.

3. LOANS

A summary of the distribution of loans held for investment, net, by type, is as follows (in thousands):

	June 30, 2021	December 31, 2020
Residential real estate	$ 213,575	$ 232,754
Commercial real estate	673,944	606,425
Commercial and industrial	155,440	157,330
Foreign banks	62,042	38,999
Consumer and other	43,979	5,507
Total gross loans	1,148,980	1,041,015
Less: Net deferred loan fees	3,885	2,511
Less: Allowance for credit losses	14,848	15,086
Loans held for investment, net	$ 1,130,247	$ 1,023,418

At June 30, 2021 and December 31, 2020, the Bank had approximately $211.2 million and $250.7 million, respectively, of commercial real estate and residential mortgage loans pledged as collateral on lines of credit with the FHLB and the Federal Reserve Bank of Atlanta.

The Bank is a participant in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") loans. These loans are designed to provide a direct incentive for small businesses to keep their workers on payroll and the funds can be used to fund payroll cost, pay mortgage interest, rent, utilities and other cost related to COVID-19. These loans are forgivable under specific criteria as determined by the SBA. The Bank had $84.2 million at June 30, 2021 and $104.8 million in PPP loans at December 31, 2020, which are reported as Commercial and Industrial loans. These PPP loans had deferred loan fees of $3.2 million at June 30, 2021 and $3.5 million at June 30, 2020.

The Bank recognized $1.9 million in PPP loan fees during the six months ended June 30, 2021, which is reported in interest and fees on loans within the consolidated statements of operations and comprehensive income.

Changes in the allowance for credit losses for the three and six months ended June 30, 2021 and 2020 are as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2021:						
Beginning balance	$ 3,087	$ 9,320	$ 2,005	$ 407	$ 190	$ 15,009
Provision for credit losses	(322)	(568)	398	147	345	-
Recoveries	4	-	64	-	1	69
Charge-offs	(229)	-	-	-	(1)	(230)
Ending Balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Six Months Ended June 30, 2021:						
Beginning balance	$ 3,408	$ 9,453	$ 1,689	$ 348	$ 188	$ 15,086
Provision for credit losses	(647)	(701)	627	206	355	(160)
Recoveries	8	-	151	-	2	161
Charge-offs	(229)	-	-	-	(10)	(239)
Ending Balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2020:						
Beginning balance	$ 4,028	$ 7,592	$ 1,445	$ 475	$ 81	$ 13,621
Provision for credit losses	252	968	868	(327)	(11)	1,750
Recoveries	7	1	24	-	-	32
Charge-offs	(12)	(61)	-	-	(7)	(80)
Ending Balance	$ 4,275	$ 8,500	$ 2,337	$ 148	$ 63	$ 15,323

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Six Months Ended June 30, 2020:						
Beginning balance	$ 3,749	$ 6,591	$ 1,214	$ 332	$ 112	$ 11,998
Provision for credit losses	437	2,031	1,010	(184)	(44)	3,250
Recoveries	101	1	113	-	11	226
Charge-offs	(12)	(123)	-	-	(16)	(151)
Ending Balance	$ 4,275	$ 8,500	$ 2,337	$ 148	$ 63	$ 15,323

Allowance for credit losses and the outstanding balances in loans as of June 30, 2021 and December 31, 2020 are as follows (in thousands):

	June 30, 2021					
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Allowance for credit losses:						
Individually evaluated for impairment	$ 203	$ 11	$ 100	$ -	$ 115	$ 429
Collectively evaluated for impairment	2,337	8,741	2,367	554	420	14,419
Ending balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848
Loans:						
Individually evaluated for impairment	$ 8,093	$ 714	$ 184	$ -	$ 251	$ 9,242
Collectively evaluated for impairment	205,482	673,230	155,256	62,042	43,728	1,139,738
Ending balance	$ 213,575	$ 673,944	$ 155,440	$ 62,042	$ 43,979	$ 1,148,980

	December 31, 2020					
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Allowance for credit losses:						
Individually evaluated for impairment	$ 220	$ -	$ 108	$ -	$ 125	$ 453
Collectively evaluated for impairment	3,188	9,453	1,581	348	63	14,633
Ending balance	$ 3,408	$ 9,453	$ 1,689	$ 348	$ 188	$ 15,086
Loans:						
Individually evaluated for impairment	$ 10,439	$ 733	$ 202	$ -	$ 278	$ 11,652
Collectively evaluated for impairment	222,315	605,692	157,128	38,999	5,229	1,029,363
Ending balance	$ 232,754	$ 606,425	$ 157,330	$ 38,999	$ 5,507	$ 1,041,015

The Bank 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. The Bank's internal credit risks are reviewed quarterly.

The Bank's internally assigned grades are as follows:

Pass	Special Mention	Substandard	Doubtful	Loss
Loans indicate different levels of satisfactory financial condition and performance.	Loans 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 Bank's credit position at some future date.	Loans are inadequately protected by the current net worth and paying capacity of the obligator or of the collateral pledged, if any. These loans demonstrate weaknesses that can jeopardize the liquidation of the debt. The Bank may sustain some loss if the deficiencies are not corrected.	Loans have all the weaknesses inherent to 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.	Loans are considered uncollectible.

The Bank segments the portfolio by loan pools grouping loans that share similar risk characteristics and employing collateral type and lien position to group loans according to risk. The Bank determines historical loss rates for each loan pool based on its own loss experience. In estimating credit losses, the Bank also considers qualitative and environmental factors that may cause estimated credit losses for the loan portfolio to differ from historical losses.

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

	As of June 30, 2021				
Loan by Class	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total Loans**
HELOC and other	$ 709	$ -	$ -	$ -	$ 709
1-4 family residential	139,917	-	4,289	-	144,206
Condo residential	68,660	-	-	-	68,660
Residential real estate	209,286	-	4,289	-	213,575
Land and construction	46,657	-	-	-	46,657
Multi family residential	121,885	-	-	-	121,885
Condo commercial	45,033	-	429	-	45,462
Commercial property	456,155	-	1,328	-	457,483
Leasehold improvements	2,457	-	-	-	2,457
Commercial real estate	672,187	-	1,757	-	673,944
Secured	62,983	-	184	-	63,167
Unsecured	92,250	-	23	-	92,273
Commercial and industrial	155,233	-	207	-	155,440
Foreign banks	62,042	-	-	-	62,042
Consumer and other	43,728	-	251	-	43,979
Total	$ 1,142,476	$ -	$ 6,504	$ -	$ 1,148,980

Loan by Class	As of December 31, 2020 Pass	Special Mention	Substandard	Doubtful	Total Loans
HELOC and other	$ 905	$ -	$ -	$ -	$ 905
1-4 family residential	151,940	-	6,748	-	158,688
Condo residential	73,016	-	145	-	73,161
Residential real estate	225,861	-	6,893	-	232,754
Land and construction	37,348	-	-	-	37,348
Multi family residential	111,047	-	-	-	111,047
Condo commercial	37,171	-	442	-	37,613
Commercial property	415,967	-	803	-	416,770
Leasehold improvements	3,647	-	-	-	3,647
Commercial real estate	605,180	-	1,245	-	606,425
Secured	44,255	-	202	-	44,457
Unsecured	112,842	-	31	-	112,873
Commercial and industrial	157,097	-	233	-	157,330
Foreign banks	38,999	-	-	-	38,999
Consumer and other	5,229	-	278	-	5,507
Total	$ 1,032,366	$ -	$ 8,649	$ -	$ 1,041,015

The following tables include an aging analysis of accruing loans and total non-accruing loans as of June 30, 2021 and December 31, 2020 (in thousands):

	As of June 30, 2021					
	Accruing					
Loan by Class	Current	Past Due 30-89 Days	Past Due > 90 Days and Still Accruing	Total Accruing	Non-Accrual	Total Loans
HELOC and other	$ 709	$ -	$ -	$ 709	$ -	$ 709
1-4 family residential	144,206	-	-	144,206	-	144,206
Condo residential	68,660	-	-	68,660	-	68,660
Residential real estate	213,575	-	-	213,575	-	213,575
Land and construction	46,657	-	-	46,657	-	46,657
Multi family residential	121,885	-	-	121,885	-	121,885
Condo commercial	45,462	-	-	45,462	-	45,462
Commercial property	456,495	988	-	457,483	-	457,483
Leasehold improvements	2,457	-	-	2,457	-	2,457
Commercial real estate	672,956	988	-	673,944	-	673,944
Secured	62,747	400	-	63,147	20	63,167
Unsecured	92,273	-	-	92,273	-	92,273
Commercial and industrial	155,020	400	-	155,420	20	155,440
Foreign banks	62,042	-	-	62,042	-	62,042
Consumer and other	43,979	-	-	43,979	-	43,979
Total	$ 1,147,572	$ 1,388	$ -	$ 1,148,960	$ 20	$ 1,148,980

There were $20 thousand in non-accrual loans with an aging less than 89 days at June 30, 2021.

Loan by Class	As of December 31, 2020 — Accruing — Current	Past Due 30-89 Days	Past Due > 90 Days and Still Accruing	Total Accruing	Non-Accrual	Total Loans
HELOC and other	$ 905	$ -	$ -	$ 905	$ -	$ 905
1-4 family residential	154,779	2,354	-	157,133	1,555	158,688
Condo residential	72,625	536	-	73,161	-	73,161
Residential real estate	228,309	2,890	-	231,199	1,555	232,754
Land and construction	37,348	-	-	37,348	-	37,348
Multi family residential	111,047	-	-	111,047	-	111,047
Condo commercial	37,475	138	-	37,613	-	37,613
Commercial property	416,770	-	-	416,770	-	416,770
Leasehold improvements	3,647	-	-	3,647	-	3,647
Commercial real estate	606,287	138	-	606,425	-	606,425
Secured	44,378	56	-	44,434	23	44,457
Unsecured	112,873	-	-	112,873	-	112,873
Commercial and industrial	157,251	56	-	157,307	23	157,330
Foreign banks	38,999	-	-	38,999	-	38,999
Consumer and other	5,198	309	-	5,507	-	5,507
Total	$ 1,036,044	$ 3,393	$ -	$ 1,039,437	$ 1,578	$ 1,041,015

There were $1.6 million in non-accrual loans with an aging less than 89 days at December 31, 2020.

There was no interest income recognized attributable to nonaccrual loans outstanding at June 30, 2021 or December 31, 2020. Interest income on these loans for June 30, 2021 and December 31, 2020 would have been approximately $1 thousand and $47 thousand, respectively, had these loans performed in accordance with their original terms.

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

	June 30, 2021			December 31, 2020		
	Unpaid Principal Balance	Net Investment Balance	Valuation Allowance	Unpaid Principal Balance	Net Investment Balance	Valuation Allowance
Impaired Loans with No Specific Allowance Recorded:						
Residential real estate	$ 4,071	$ 4,064	$ -	$ 5,100	$ 5,093	$ -
Commercial real estate	285	284	-	733	732	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
	4,356	4,348	-	5,833	5,825	-
Impaired Loans with Specific Allowance Recorded:						
Residential real estate	4,022	3,985	203	5,339	5,302	220
Commercial real estate	429	428	11	-	-	-
Commercial and industrial	184	184	100	202	202	108
Consumer and other	251	251	115	278	278	125
	4,886	4,848	429	5,819	5,782	453
Total	$ 9,242	$ 9,196	$ 429	$ 11,652	$ 11,607	$ 453

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,		Six Months Ended June 30,	
	2021	2020	2021	2020
Residential real estate	$ 8,321	$ 5,923	$ 9,027	$ 5,534
Commercial real estate	718	2,581	723	2,106
Commercial and industrial	188	305	192	245
Foreign banks	-	-	-	-
Consumer and other	262	-	268	-
Total	$ 9,489	$ 8,809	$ 10,210	$ 7,885

Interest income recognized on impaired loans for the three months ended June 30, 2021 and 2020 was $105 thousand and $139 thousand, respectively.

Interest income recognized on impaired loans for the six months ended June 30, 2021 and 2020 was $214 thousand and $196 thousand, respectively.

The following table presents performing and non-performing Troubled Debt Restructurings ("TDRs") for the dates indicated (in thousands):

	June 30, 2021			December 31, 2020		
	Accrual Status	Non-Accrual Status	Total TDRs	Accrual Status	Non-Accrual Status	Total TDRs
Residential real estate	$ 8,093	$ -	$ 8,093	$ 8,884	$ 777	$ 9,661
Commercial real estate	713	-	713	733	-	733
Commercial and industrial	164	20	184	179	23	202
Consumer and other	251	-	251	278	-	278
Total	$ 9,221	$ 20	$ 9,241	$ 10,074	$ 800	$ 10,874

The Bank had allocated $429 thousand and $453 thousand of specific allowance for TDR loans at June 30, 2021 and December 31, 2020, respectively. There was no commitment to lend additional funds at June 30, 2021 and December 31, 2020.

There were no charge-offs of TDR loans during the periods ended June 30, 2021 and June 30, 2020.

The Bank did not have any new TDRs for the three and six months ended June 30, 2021. For the three and six months ended June 30, 2020, the Bank had the following TDR loans (in thousands):

	Recorded Investment Prior to Modification			Recorded Investment After Modification		
Loans by Segment	Number of Loans	Combination Modifications	Total Modifications	Number of Loans	Combination Modifications	Total Modifications
Residential real estate	2	$ 514	$ 514	2	$ 514	$ 514
Commercial real estate	1	451	451	1	451	451
Total	3	$ 965	$ 965	3	$ 965	$ 965

Modifications to loans can be made for rate, term, payment, conversion of loan to interest only for a limited time or a combination to include more than one type of modification.

As of June 30, 2021 and 2020, there were no defaults on loans which were modified as a TDR within the prior 12 months.

4. LEASES

The Bank leases nine of the eleven branch locations and the headquarter building. The Bank is obligated under non-cancelable operating leases for these premises with expiration dates ranging from 2021 to 2036, many of these leases have extension clauses which the Bank could exercise which would extend these dates.

The Bank has classified all leases as operating leases. Lease expense for operating leases are recognized on a straight-line basis over the lease term. Right-of-use ("ROU") asset represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Bank uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments. The Bank's incremental borrowing rate is based on the FHLB advance rate matching or nearing the lease term.

The following table presents information on the Bank's operating leases for the periods indicated (in thousands):

	June 30, 2021	December 31, 2020
Operating leases:		
ROU assets	$ 13,100	$ 14,513
Lease liabilities	$ 13,100	$ 14,513
Weighted average remaining lease term (in years)	9.12	9.13
Weighted average discount rate	2.49%	2.49%

The table below presents the future lease payment obligations and a reconciliation to lease liability as of June 30, 2021 (in thousands):

Year ending December 31,	
2021	$ 1,239
2022	2,308
2023	2,193
2024	2,222
2025	2,236
Thereafter	5,341
Total future minimum lease payments	15,539
Less: interest component	(2,439)
Lease liability	$ 13,100

5. INCOME TAXES

The Bank's provision for income taxes is presented below for the dates indicated (in thousands):

	June 30, 2021	June 30, 2020
Current:		
Federal	$ -	$ -
State	-	-
Total Current	-	-
Deferred:		
Federal	2,268	821
State	493	212
Total Deferred	2,761	1,033
Total Provision	$ 2,761	$ 1,033

The actual income tax expense for June 30, 2021 and June 30, 2020 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 21% for 2021 and 2020 to income before provision for income taxes) as follows (in thousands):

	June 30, 2021	June 30, 2020
Federal taxes at statutory rate	$ 2,435	$ 885
State income taxes, net of federal tax benefit	406	147
Bank owned life insurance	(82)	(89)
Other, net	2	90
Total	$ 2,761	$ 1,033

The Bank's deferred tax assets and deferred tax liabilities are as follows (in thousands):

	June 30, 2021	December 31, 2020
Deferred tax assets:		
Net operating loss	$ 32,513	$ 35,506
Allowance for loan losses	3,764	3,824
Deferred loan fees	985	636
Depreciable property	323	285
Stock option compensation	193	169
Accruals	331	349
Other, net	8	7
Deferred tax asset	38,117	40,776
Deferred tax liability:		
Unrealized gain on AFS securities	(60)	(1,553)
Deferred rent	(166)	(64)
Deferred tax liability	(226)	(1,617)
Net deferred tax asset	$ 37,891	$ 39,159

The Bank has approximately $124.6 million of Federal and $147.3 million of State net operating loss carryforwards expiring in various amounts starting in 2031 to 2036. Their utilization is limited to future taxable earnings of the Bank.

In assessing the realizability of deferred tax assets, management considered 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 U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Bank files income tax returns. The Bank is generally no longer subject to U.S. Federal or State examinations by tax authorities for years before 2017.

For the period ended June 30, 2021 and year ended December 31, 2020, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

6. STOCK OPTION PLANS

Stock option balances, weighted average exercise price and weighted average fair value of options granted for the six months ended June 30, 2021 and June 30, 2020 were adjusted to reflect the 1 for 5 reverse stock split on Common Stock Class A. Stock options are only exercisable to Common Stock Class A. See Note 11 "Stockholders' Equity" for further discussion on stock split.

In 2015, the Bank's shareholders approved the 2015 Equity Incentive Plan (the "2015 Option Plan"), which authorized grants of options to purchase up to 2,000,000 shares of Common stock. The 2015 Option Plan provided that vesting schedules will be determined upon issuance of options by the Board of Directors or compensation committee. Options granted under the 2015 Option Plan have a 10-year life, in no event shall an option be exercisable after the expiration of 10 years from the grant date. The 2015 Option Plan has a 10-year life and will terminate in 2025. In July 2020, the shareholder of the Bank approved to amend the 2015 Option plan authorizing the issuance of an additional 3,000,000 shares of Common Stock and extending the life of the plan 5 additional years, terminating in 2030.

At June 30, 2021, there were 2,758,334 shares available for grant under the 2015 Option Plan. At June 30, 2020, there were 38,334 shares available for grant under the 2015 Option Plan.

The Bank recognizes compensation expense based on the estimated grant date fair value method using the Black-Scholes option pricing model and accounts for this expense using a pro-rated straight-line amortization method over the vesting period of the option. Stock based compensation expense is based on awards that the Bank expects will ultimately vest reduced by estimated forfeitures. Estimated forfeitures consider the voluntary termination trends as well as actual option forfeitures.

The compensation expense is reported within salaries and employee benefits expense in the accompanying consolidated statements of operations and comprehensive income. Compensation expense totaling $97 thousand was recognized in for the six months ended June 30, 2021 and $116 thousand for the six months ended June 30, 2020. Compensation expense totaling $44 thousand was recognized for the three months ended June 30, 2021 and $52 thousand for the three months ended June 30, 2020. There was no related tax benefit for the period ended June 30, 2021 and 2020.

Unrecognized compensation cost remaining on stock-based compensation totaled $111 thousand as of June 30, 2021 and $151 thousand as of June 30, 2020.

Accounting standards require cash flows resulting from excess tax benefits to be classified as a part of cash flows from operating activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to the compensation cost for such options.

The fair value of options granted was determined using the following weighted-average assumptions:

Assumption	2021
Risk-free interest rate	1.68%
Expected term	10 years
Expected stock price volatility	10%
Dividend yield	0%

Due to lack of trading activity in the Bank's stock at June 30, 2021, the expected stock price volatility was estimated at 10%.

A summary of stock options are as follows for the three months ended June 30, 2021 and 2020:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Years	Aggregate Intrinsic Value
Balance at April 1, 2021	403,667	$ 9.29	7.1	
Granted	6,000	$ 8.75		
Balance at June 30, 2021	409,667	$ 9.29	6.9	
Exercisable at June 30, 2021	280,333	$ 8.94	6.3	$ 442
Balance at April 1, 2020	355,667	$ 9.28	8.4	
Forfeited	-	$ -		
Balance at June 30, 2020	355,667	$ 9.28	7.6	
Exercisable at June 30, 2020	200,333	$ 8.13	6.6	$ 647

A summary of stock options are as follows for the six months ended June 30, 2021 and 2020:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Years	Aggregate Intrinsic Value
Balance at January 1, 2021	339,667	$ 9.37	7.1	
Granted	70,000	$ 8.90		
Balance at June 30, 2021	409,667	$ 9.29	6.9	
Exercisable at June 30, 2021	280,333	$ 8.94	6.3	$ 442
Balance at January 1, 2020	365,667	$ 9.30	8.5	
Forfeited	(10,000)	$ 9.10		
Balance at June 30, 2020	355,667	$ 9.28	7.6	
Exercisable at June 30, 2020	200,333	$ 8.13	6.6	$ 647

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the valuation of the Bank's stock and the exercise price, multiplied by the number of options considered in-the-money) that would have been received by the option holders had all option holders exercised their options.

The weighted average fair value of options granted for the three and six months ended June 30, 2021 was $1.80 and $1.84, respectively.

7. OFF-BALANCE SHEET ARRANGEMENTS

The Bank 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 consolidated balance sheets. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank'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 Bank's financial instruments with off-balance sheet risk are shown below for the dates indicated (in thousands):

	June 30, 2021	June 30, 2020
Commitments to grant loans and unfunded lines of credit	$ 119,805	$ 94,583
Standby and commercial letters of credit	$ 3,357	$ 1,137

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 Bank is committed.

Standby and commercial letters of credit are conditional commitments issued by the Bank 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 many of them expire without being drawn upon, they do not generally present a significant liquidity risk to the Bank.

8. DERIVATIVES

The Bank utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps do not represent amounts exchanged by the parties. The amounts exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The Banks enters into interest rate swaps with its loan customers. The Bank had 18 interest rate swaps with loan customers with a notional amount $39.6 million at June 30, 2021, maturing between 2025 and 2051. The Bank entered into corresponding and offsetting derivatives with third parties. While these derivatives represent economic hedges, it does not qualify as hedges for accounting purposes.

The following table reflects the derivatives recorded on the consolidated financial statements for the dates indicated below (in thousands):

	June 30, 2021	December 31, 2020
Included in other assets:		
Derivatives not designated as hedging instruments:		
Interest rate swaps related to customer loans	$ 1,121	$ 500
Included in other liabilities:		
Derivatives not designated as hedging instruments:		
Interest rate swaps related to customer loans	$ 1,121	$ 500

9. COMMITMENTS AND CONTINGENCIES

Loss contingencies, including claims and legal actions may arise in the ordinary course of business. Management does not believe there were any such matters that will have a material effect on the Consolidated Financial Statements at June 30, 2021 and December 31, 2020.

10. FAIR VALUE MEASUREMENTS

Determination of Fair Value

The Bank 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 Bank'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 recent 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 Bank 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

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 Bank's assets measured at fair value on a recurring basis at June 30, 2021 and December 31, 2020 for each of the fair value hierarchy levels (in thousands):

	June 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
U.S. Government Agency - SBA	$ -	$ 12,213	$ -	$ 12,213
U.S. Government Agency	-	17,471	-	17,471
Collateralized mortgage obligations	-	131,517	-	131,517
Mortgage-backed securities - Residential	-	105,682	-	105,682
Mortgage-backed securities - Commercial	-	46,459	-	46,459
Municipal Securities	-	27,964	-	27,964
Bank subordinated debt securities	-	25,337	-	25,337
Corporate Bond	-	29,161	-	29,161
	$ -	$ 395,804	$ -	$ 395,804
Derivatives	$ -	$ 1,121	$ -	$ 1,121
Financial Liabilities:				
Derivatives	$ -	$ 1,121	$ -	$ 1,121

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
U.S. Government Agency - SBA	$ -	$ 1,552	$ -	$ 1,552
U.S. Government Agency	-	20,032	-	20,032
Collateralized mortgage obligations	-	104,650	-	104,650
Mortgage-backed securities - Residential	-	81,301	-	81,301
Mortgage-backed securities - Commercial	-	48,331	-	48,331
Municipal Securities	-	24,211	-	24,211
Bank subordinated debt securities	-	24,630	-	24,630
Corporate Bond	-	29,615	-	29,615
	$ -	$ 334,322	$ -	$ 334,322
Derivatives	$ -	$ 500	$ -	$ 500
Financial Liabilities:				
Derivatives	$ -	$ 500	$ -	$ 500

Items Measured at Fair Value on a Nonrecurring Basis

Impaired Loans - At June 30, 2021 and December 31, 2020, in accordance with provisions of the loan impairment guidance, individual loans with a carrying amount of approximately $4.9 million and $5.8 million, respectively, were written down to their fair value of approximately $4.5 million and $5.4 million, respectively, resulting in an impairment charge of $429 thousand and $453 thousand, respectively, which was included in the allowance for credit losses at June 30, 2021 and December 31, 2020. Loans applicable 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 are 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 Bank 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 Bank’s assets measured at fair value on a nonrecurring basis at June 30, 2021 and December 31, 2020 for each of the fair value hierarchy levels (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2021:				
Impaired loans	$ -	$ -	$ 4,457	$ 4,457

	Level 1	Level 2	Level 3	Total
December 31, 2020:				
Impaired loans	$ -	$ -	$ 5,366	$ 5,366

The following table presents quantified information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at June 30, 2021 and December 31, 2020 (in thousands):

June 30, 2021	Fair Value	Valuation Technique(s)	Unobservable Input(s)
Impaired Loans:			
Residential real estate	$ 3,819	Sales comparison approach	Adjustment for differences between comparable sales
Commercial Real Estate	418	Sales comparison approach	Adjustment for differences between comparable sales
Commercial and industrial	84	Discounted cash flow	Adjustment for differences in net operating income expectations
Other	136	Discounted cash flow	Adjustment for differences in net operating income expectations
Total	$ 4,457		

December 31, 2020	Fair Value	Valuation Technique(s)	Unobservable Input(s)
Impaired Loans:			
Residential real estate	$ 5,119	Sales comparison approach	Adjustment for differences between comparable sales
Commercial and industrial	94	Discounted cash flow	Adjustment for differences in net operating income expectations
Other	153	Discounted cash flow	Adjustment for differences in net operating income expectations
Total	$ 5,366		

There were no financial liabilities measured at fair value on a nonrecurring basis at June 30, 2021 and December 31, 2020.

Items Not Measured at Fair Value

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at June 30, 2021 and December 31, 2020 are as follows (in thousands):

	June 30, 2021				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from banks	$ 7,411	$ 7,411	$ -	$ -	$ 7,411
Interest-bearing deposits in banks	$ 39,706	$ 39,706	$ -	$ -	$ 39,706
Loans held for investment, net	$ 1,130,247	$ -	$ -	$ 1,158,707	$ 1,158,707
Accrued interest receivable	$ 5,612	$ -	$ 1,071	$ 4,541	$ 5,612
Financial Liabilities					
Demand Deposits	$ 555,994	$ 555,994	$ -	$ -	$ 555,994
Money market and savings accounts	$ 609,121	$ 609,121	$ -	$ -	$ 609,121
Interest-bearing checking accounts	$ 47,455	$ 47,455	$ -	$ -	$ 47,455
Time deposits	$ 226,206	$ -	$ -	$ 226,661	$ 226,661
FHLB advances	$ 36,000	$ -	$ 37,862	$ -	$ 37,862
Accrued interest payable	$ 105	$ -	$ 48	$ 57	$ 105

	December 31, 2020				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from banks	$ 9,828	$ 9,828	$ -	$ -	$ 9,828
Interest-bearing deposits in banks	$ 37,906	$ 37,906	$ -	$ -	$ 37,906
Loans held for investment, net	$ 1,023,418	$ -	$ -	$ 1,046,782	$ 1,046,782
Accrued interest receivable	$ 5,547	$ -	$ 874	$ 4,673	$ 5,547
Financial Liabilities					
Demand Deposits	$ 442,467	$ 442,467	$ -	$ -	$ 442,467
Money market and savings accounts	$ 527,373	$ 527,373	$ -	$ -	$ 527,373
Interest-bearing checking accounts	$ 45,132	$ 45,132	$ -	$ -	$ 45,132
Time deposits	$ 258,430	$ -	$ -	$ 259,857	$ 259,857
FHLB advances	$ 36,000	$ -	$ 37,543	$ -	$ 37,543
Accrued interest payable	$ 156	$ -	$ 49	$ 107	$ 156

11. STOCKHOLDERS' EQUITY

The Board of Directors (the "Board") approved the dividends on the Preferred stock class as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Preferred stock - Class C; Non-voting, Non-cumulative, Perpetual: $1.00 par value; $1,000 per share liquidation preference; annual divided rate 4% of liquidation preferrence paid quarterly. Quarterly dividend of $10.00 per share.	$ 528	$ 528	$ 1,055	$ 1,055
Preferred stock - Class D; Non-voting, Non-cumulative, Perpetual: $1.00 par value; $5.00 per share liquidation preference; annual dividend rate of 4% of par value paid quarterly. Quarterly dividend of $0.01 per share.	123	123	246	246
Preferred stock - Class E; Non-voting, partially cumulative, Perpetual: $1.00 par value; $1,000 per share liquidation preference; annual dividend rate of 7% of liquidation preferrence paid quarterly. Quarterly dividend of $17.50 per share.	103	131	234	262
Total Dividends Paid	$ 754	$ 782	$ 1,535	$ 1,563

Declaration of dividends by the Board is required before dividend payments are made. The dividend payment dates for the Preferred Class C and Preferred Class D are set by the Board. Preferred E have a set dividend payment date on the 15th of February, May, August, and November.

On April 5, 2021, a Special Committee of the Board of Directors authorized and approved the offer to repurchase all outstanding shares of Class E Preferred Stock at the liquidation value of $7.5 million along with declared dividends approved by the Board of Directors on April 26, 2021 of $103 thousand. All Class E Preferred Stock shareholders approved the repurchase which the Bank completed on April 26, 2021.

No dividends were approved by the Board for the Common Stock Classes for the periods ended June 30, 2021 and June 30, 2020.

There were no dividends declared and unpaid at June 30, 2021 and June 30, 2020.

On June 16, 2021 the Bank effected a 1 for 5 reverse stock split of all the Class A common stock $1.00 par value. As of the effective date of June 16, 2021, each five shares of the Bank's Class A common stock was combined into one fully paid share of Class A common stock. Any fractional shares resulting from this reverse stock split were rounded up to one whole share. The Bank has disclosed the Class A common stock, earnings per share and stock options adjusted for this 1 for 5 reverse stock split for all periods shown. The Class B common stock were not adjusted but if sold or exchanged would be converted at the 1 for 5 reverse stock split of 5 Class B common stock for 1 share of Class A common stock. Any dividends declared by the Board to include Class B common stock will also be paid as if converted.

The 1 for 5 reverse stock split resulted in adjustments to Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Changes in Stockholders' Equity, Note 6 "Stock Option Plans" and Note 12 "Earnings Per Share".

12. EARNINGS PER SHARE

The reconciliation of earnings per share ("EPS") for the periods indicated are as follows (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Net income	$ 4,053	$ 1,444	$ 8,834	$ 3,179
Less: Preferred stock dividends	754	782	1,535	1,563
Net income available to common stockholders	$ 3,299	$ 662	$ 7,299	$ 1,616

	Three months ended June 30, 2021		Six months ended June 30, 2021	
	Common A	**Common B**	**Common A**	**Common B**
Basic EPS:				
Allocation of Net Income	$ 2,509	$ 790	$ 5,551	$ 1,748
Weighted average common shares outstanding	3,889,469	6,121,052	3,889,469	6,121,052
Basic earnings per common share	**$ 0.65**	**$ 0.13**	**$ 1.43**	**$ 0.29**
Diluted EPS:				
Allocation of Net Income	$ 2,509	$ 790	$ 5,551	$ 1,748
Weighted average common shares outstanding for basic earnings per common share	3,889,469	6,121,052	3,889,469	6,121,052
Add: Dilutive effects of assumed exercises of stock options	44,167	-	44,167	-
Average shares and dilutive potential common shares	3,933,636	6,121,052	3,933,636	6,121,052
Dilutive earnings per common share	**$ 0.64**	**$ 0.13**	**$ 1.41**	**$ 0.29**

Stock options for 103,666 shares of common stock were not considered in computing diluted earnings per common share for June 30, 2021 because they were considered anti-dilutive.

	Three months ended June 30, 2020				Six months ended June 30, 2020			
	Common A		Common B		Common A		Common B	
Basic EPS:								
Allocation of Net Income	$	503	$	159	$	1,229	$	387
Weighted average common shares outstanding		3,887,469		6,121,052		3,887,469		6,121,052
Basic earnings per common share	**$**	**0.13**	**$**	**0.03**	**$**	**0.32**	**$**	**0.06**
Diluted EPS:								
Allocation of Net Income	$	503	$	159	$	1,229	$	387
Weighted average common shares outstanding for basic earnings per common share		3,887,469		6,121,052		3,887,469		6,121,052
Add: Dilutive effects of assumed exercises of stock options		56,986		-		56,986		-
Average shares and dilutive potential common shares		3,944,455		6,121,052		3,944,455		6,121,052
Dilutive earnings per common share	**$**	**0.13**	**$**	**0.03**	**$**	**0.31**	**$**	**0.06**

Stock options for 32,334 shares of common stock were not considered in computing diluted earnings per common share for June 30, 2020 because they were considered anti-dilutive.

The Bank computes earnings per common share of Common A and Common B using the two-class method. Basic earnings per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares and the effect of dilution from assumed exercises of stock options. The calculation of the dilutive effects of assumed exercised of stock options is calculated on the treasury stock method. The earnings per share calculation for 2020 has been adjusted based on the Bank's 1 for 5 reverse stock split for Class A voting common stock.

In calculating earnings per common share, net income available to common stockholders was allocated as if all the income for the period were distributed to common stockholders. The allocation was based on the outstanding shares per common share class to the total common shares outstanding during each period giving effect for the 1 for 5 reverse stock split. The Bank's articles of incorporation require that the distribution of income to Common B stockholders be adjusted to give effect for Class A stock splits. Therefore, the income allocated to Common B shares was calculated based on their 20% per share equivalent to Common A shares to give effect to the 1 for 5 reverse stock split of Common A.

See Note 11 "Stockholders' Equity" for further discussion on stock splits.

13. REGULATORY MATTERS

The Bank, as a state-chartered bank, is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in the capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on the Bank's regulatory capital levels.

The Bank is required to maintain a capital conservation buffer consisting of additional common equity tier 1 capital greater than 2.5% to risk-weighted assets above the required minimum levels. Failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. This capital conservation buffer requirement was phased in beginning January 2016 and was fully implemented in January 2019 at 2.5% of risk-weighted assets. The Bank's capital conservation buffer was 4.69% for June 30, 2021 and 5.21% for December 31, 2020.

Under the FDIC's prompt corrective action standards, to be considered well-capitalized, Banks must have a common equity tier 1 capital ratio of 6.5%, a tier 1 ratio of 8.0%, a total capital ratio of 10.0% and a leverage ratio of 5.0%. The Bank meets all these requirements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), Tier 1 capital (as defined) to average assets (as defined), and common Tier 1 capital (as defined) to risk weighted assets (as defined).

Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Payment of dividends is generally limited to earnings of the Bank, as defined, for the current period and the full two preceding years. As of June 30, 2021, $25.2 million of retained earnings is available to pay dividends.

As of June 30, 2021, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Failure to meet statutorily mandated capital guidelines could subject the Bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the Bank may pay on its deposits and other restrictions on its business. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are presented below as of June 30, 2021 and December 31, 2020 (in thousands):

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
As of June 30, 2021:						
Total risk-based capital (to risk weighted assets)	$ 142,246	12.69%	$ 89,657	8.00%	$ 112,071	10.00%
Tier 1 capital (to risk weighted assets)	$ 128,225	11.44%	$ 67,243	6.00%	$ 89,657	8.00%
Common Tier 1 capital (to risk weighted assets)	$ 103,609	9.24%	$ 50,432	4.50%	$ 72,846	6.50%
Tier 1 capital (to average total assets)	$ 128,225	7.91%	$ 64,870	4.00%	$ 81,087	5.00%
As of December 31, 2020:						
Total risk-based capital (to risk weighted assets)	$ 139,326	14.24%	$ 78,260	8.00%	$ 97,825	10.00%
Tier 1 capital (to risk weighted assets)	$ 127,061	12.99%	$ 58,695	6.00%	$ 78,260	8.00%
Common Tier 1 capital (to risk weighted assets)	$ 94,984	9.71%	$ 44,021	4.50%	$ 63,587	6.50%
Tier 1 capital (to average total assets)	$ 127,061	8.61%	$ 59,053	4.00%	$ 73,817	5.00%

14. SUBSEQUENT EVENTS

Special Shareholder Meeting

On July 13, 2021, the Bank held a Special Shareholder Meeting to vote on a proposal to approve an amendment to the Bank's Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares of Class A voting common stock from 20 million to 45 million. The proposal was approved by the shareholders.

Exchange offer for Preferred Class C and Preferred Class D

On July 22, 2021, the Bank completed an offer that resulted in the voluntary exchange of 90% of the outstanding Preferred Class C and Preferred Class D shares for Common Class A Voting. The Preferred Class C and Preferred Class D was exchanged at an exchange rate determined by dividing (i) the amount of liquidation preference of the applicable preferred stock that was submitted and accepted by the Bank by (ii) the public offering price of $10 per share of Class A common stock. The Bank exchanged 47,473 Preferred Class C shares with a total liquidation value of $47.5 million for 4,747,295 shares of Class A common stock. The Bank exchanged 11,061,552 of Preferred Class D shares with a total liquidation value of $55.3 million for 5,530,776 shares of Class A common stock.

Upon completion of the exchange the Bank had outstanding 5,275 Preferred Class C shares with a total liquidation value of $5.3 million and 1,229,079 Preferred Class D shares with a total liquidation value of $6.1 million.

On July 22, 2021, the Board of Directors approved dividends to be paid on the number of Preferred C and Preferred D shares which were exchanged. The payment was made on July 29,2021 as follows (in thousands):

Preferred stock - Class C	$	364
Preferred stock - Class D	$	85

Initial Public Offering ("IPO")

Only July 22, 2021, the Bank completed a public offering of the Bank's Class A common stock at a price of $10 per share. The Bank sold a total of 4.6 million shares with net proceeds, after underwriting discounts and expenses, of approximately $40 million.

Other Subsequent Events

The Bank was named defendant in a suit filed by two shareholders on July 12, 2021. Management believes this lawsuit is legally and factually without merit and intends to defend against it. Management does not believe there is any litigation which will have a material effect on the consolidated financial statements.

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

The following discussion and analysis presents information concerning the Company's consolidated financial condition as of June 30, 2021, as compared to December 31, 2020, and our results of operations for the three and six months ended June 30, 2021 and June 30, 2020. This discussion and analysis is best read in conjunction with the unaudited consolidated financial statements and notes thereto included in Part I, Item 1 of this report, and the annual financial statements and related footnotes included in the Offering Circular that was filed with the FDIC on July 15, 2021.

Throughout this document, references to "we," "us," "our," and "the Bank" refer to the Company and its consolidated subsidiaries. References to the "Offering Circular" in this report refer to our Offering Circular dated July 15, 2021 and filed as Exhibit 99.1 to our Registration Statement.

Forward-Looking Statements

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

- These forward-looking statements involve significant risks and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Potential risks and uncertainties include, but are not limited to:
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- the COVID-19 pandemic and its impact on us, our employees, customers and third-party service providers, and the ultimate extent of the impacts of the pandemic and related government stimulus programs;
- 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 environment;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- legislative or regulatory changes and changes in accounting principles, policies, practices or guidelines, including the effects of forthcoming CECL implementation;
- 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;
- the concentration of ownership of our Class A 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;
- increased competition and its effect on pricing of our products and services as well as our margins;
- 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 from time to time in our filings with the FDIC.

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 presentation are made only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, unless required to do so under the federal securities laws. You should also review the risk factors we describe in the reports we will file from time to time with the FDIC.

Overview

U.S. Century Bank, a Florida state-chartered bank and a member of the FDIC, commenced operations on October 28, 2002. The Company is headquartered in Miami-Dade County, Florida and serves primarily small-to-medium sized businesses ("SMBs").

The Bank's network of 11 banking centers and digital banking platform offers a wide range of commercial products and services tailored to meet the needs of SMBs.

The initial public offering of our Class A common stock was completed in July 2021. Our Class A common stock is traded on the Nasdaq Global Market under ticker symbol "USCB".

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 2 to our audited financial statements, starting on page F-59 of our Offering Circular filed with the FDIC on July 15, 2021. To prepare financial statements in conformity with 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.

Additional information about these policies can be found in Note 2 of the consolidated financial statements, which are included on page F-59 of our Offering Circular, and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Offering Circular filed with the FDIC. There have been no changes to the Critical Accounting Policies and Estimates since the Company filed its Offering Circular.

Allowance for Credit Losses ("ACL")

The allowance for credit losses ("ACL") is a valuation allowance that is established through charges to earnings in the form of a provision for credit losses. The amount of the ACL is affected by the following: (i) charge-offs of loans that decrease the allowance; (ii) subsequent recoveries on loans previously charged off that increase the allowance; and (iii) provisions for credit losses charged to income that increase the allowance. Management considers the policies related to the ACL as the most critical to the financial statement presentation. The total ACL includes activity related to allowances calculated in accordance with Accounting Standards Codification ("ASC") 310, Receivables, and ASC 450, Contingencies.

Throughout the year, management estimates the probable incurred losses in the loan portfolio to determine if the ACL is adequate to absorb such losses. The ACL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. We follow a loan review program to evaluate the credit risk in the loan portfolio. Loans that have been identified as impaired are reviewed on a quarterly basis in order to determine whether a specific reserve is required. The general component covers non-impaired loans and is based on industry and our specific historical loan loss experience, volume, growth and composition of the loan portfolio, the evaluation of our loan portfolio through our internal loan review process, general current economic conditions both internal and external to us that may affect the borrower's ability to pay, value of collateral and other qualitative relevant risk factors. Based on a review of these estimates, we adjust the ACL to a level determined by management to be adequate. Estimates of credit losses are inherently subjective as they involve an exercise of judgment.

The CARES Act, as amended by the Consolidated Appropriations Act, 2021, specified that COVID-19 related loan modifications executed between March 1, 2020 and the earlier of (i) 60 days after the date of termination of the national emergency declared by President Trump and (ii) January 1, 2022, on loans that were current as of December 31, 2019, are not TDRs. Additionally, under guidance from the federal banking agencies, other short-term modifications made on a good faith basis in response to COVID-19 to borrowers that were current prior to any relief are not TDRs under ASC Subtopic 310-40, "Troubled Debt Restructurings by Creditors." These modifications include short-term (i.e. up to six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant.

The Bank's charge-off policy is to continuously review all impaired loans in order to monitor the Bank's ability to collect them in full at the applicable maturity date and/or in accordance with terms of any restructurings. For loans which are collateral dependent, or deemed to be uncollectible, any shortfall in the fair value of the collateral relative to the recorded investment in the loan is charged off. The amount charged-off conforms to the amount necessary to comply with GAAP.

Income Taxes

Income taxes are accounted for under the asset and liability method. 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 Bank 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.

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 Bank-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Results of Operations

General

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

Net income for the three months ended June 30, 2021 was $4.1 million, or $0.64 per diluted share of Class A common stock and $0.13 per diluted share of Class B common stock, compared to $1.4 million, or $0.13 per diluted share of Class A common stock and $0.03 per diluted share of Class B common stock, for the three months ended June 30, 2020. The $2.6 million increase in net income for the second quarter of 2021, compared to the second quarter of 2020, was primarily due to a $1.6 million increase in net interest income and a $1.8 million reduction in provision for credit losses, partially offset by a $0.8 million increase in the provision for income taxes.

Net income for the six months ended June 30, 2021 was $8.8 million, or $1.41 per diluted share of Class A common stock and $0.29 per diluted share of Class B common stock, compared to $3.2 million, or $0.31 per diluted share of Class A common stock and $0.06 per diluted share of Class B common stock, for the six months ended June 30, 2020. The $5.7 million increase in net income for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, was primarily due to an $4.0 million increase in net interest income and a $3.4 million reduction in provision for credit losses, partially offset by a $1.7 million increase in the provision for income taxes.

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 rates 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 benefit of these non-interest-bearing 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 balance sheet, average yields on assets, and average costs of liabilities for the periods indicated (in thousands):

	Three Months Ended June 30,					
	2021			2020		
	Average Balance	Interest	Yield/Rate [(1)]	Average Balance	Interest	Yield/Rate [(1)]
Assets						
Interest-earning assets:						
Loans [(2)]	$ 1,088,492	$ 11,538	4.19%	$ 1,038,869	$ 11,974	4.56%
Investment securities	385,090	1,968	2.04%	176,744	1,218	2.76%
Other interest earnings assets	101,134	23	0.09%	95,464	67	0.28%
Total interest-earning assets	1,574,716	13,529	3.41%	1,311,077	13,259	4.00%
Allowance for loan losses	85,344			93,340		
Total assets	$ 1,660,060			$ 1,404,417		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 52,620	15	0.11%	$ 43,480	44	0.41%
Saving and money market deposits	607,752	523	0.35%	440,505	763	0.69%
Time deposits	235,899	379	0.65%	286,884	1,306	1.83%
Total interest-bearing deposits	896,271	917	0.41%	770,869	2,113	1.10%
Borrowings and repurchase agreements	36,000	138	1.52%	48,835	275	2.23%
Total interest-bearing liabilities	932,271	1,055	0.45%	819,704	2,388	1.17%
Non-interest bearing demand deposits	535,894			395,621		
Other non-interest-bearing liabilities	24,964			25,305		
Total liabilities	1,493,129			1,240,630		
Stockholders' equity	166,931			163,787		
Total liabilities and stockholders' equity	$ 1,660,060			$ 1,404,417		
Net interest income		$ 12,474			$ 10,871	
Net interest spread [(3)]			2.96%			2.83%
Net interest margin [(4)]			3.14%			3.28%

(1) Annualized.
(2) Average loan balances include non-accrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
(4) Net interest margin is the ratio of net interest income to total interest-earning assets.

	Six Months Ended June 30,					
	2021			2020		
	Average Balance	Interest	Yield/Rate (1)	Average Balance	Interest	Yield/Rate (1)
Assets						
Interest-earning assets:						
Loans (2)	$ 1,080,183	$ 23,406	4.31%	$ 1,019,653	$ 23,710	4.60%
Investment securities	361,394	3,812	2.11%	180,076	2,482	2.76%
Other interest earnings assets	89,914	39	0.09%	72,745	209	0.58%
Total interest-earning assets	1,531,491	27,257	3.54%	1,272,474	26,401	4.11%
Allowance for loan losses	85,718			93,601		
Total assets	$ 1,617,209			$ 1,366,075		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 48,607	29	0.12%	$ 45,343	90	0.40%
Saving and money market deposits	588,282	1,071	0.37%	433,057	1,890	0.88%
Time deposits	241,993	933	0.78%	280,398	2,718	1.94%
Total interest-bearing deposits	878,882	2,033	0.47%	758,798	4,698	1.24%
Borrowings and repurchase agreements	36,000	275	1.52%	62,066	718	2.29%
Total interest-bearing liabilities	914,882	2,308	0.51%	820,864	5,416	1.32%
Non-interest bearing demand deposits	509,283			357,457		
Other non-interest-bearing liabilities	23,803			24,789		
Total liabilities	1,447,968			1,203,110		
Stockholders' equity	169,241			162,965		
Total liabilities and stockholders' equity	$ 1,617,209			$ 1,366,075		
Net interest income		$ 24,949			$ 20,985	
Net interest spread (3)			3.03%			2.79%
Net interest margin (4)			3.24%			3.26%

(1) Annualized.
(2) Average loan balances include non-accrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
(4) Net interest margin is the ratio of net interest income to total interest-earning assets.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Net interest income was $12.5 million for the three months ended June 30, 2021, an increase of $1.6 million or 14.8%, from $10.9 million for the three months ended June 30, 2020. This increase was primarily attributable to higher income from investment securities and decreases in interest bearing liability costs due to lower interest rate benchmarks.

The net interest margin was 3.14% for the three months ended June 30, 2021, compared to 3.28% for the three months ended June 30, 2020. The decline in the average rate paid on interest bearing liabilities, particularly deposits, exceeded the decline in the average yield on interest earning assets.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Net interest income was $25.0 million for the six months ended June 30, 2021, an increase of approximately $4.0 million or 18.9%, from $21.0 million for the three months ended June 30, 2020. This increase was primarily attributable to higher income from investment securities and decreases in interest bearing liability costs because of lower interest rate benchmarks.

The net interest margin was 3.24% for the six months ended June 30, 2021, compared to 3.26% for the six months ended June 30, 2020. The decline in the average rate paid on interest bearing liabilities, particularly deposits, exceeded the decline in the average yield on interest earning assets

Provision for Credit Losses

The allowance for credit losses ("ACL") represents probable incurred losses in our portfolio. We maintain an adequate ACL that can mitigate probable losses incurred in the loan portfolio. The ACL is increased by the provision for credit losses and is decreased by charge-offs, net of recoveries on prior loan charge-offs. There are multiple credit quality metrics that we use to base our determination of the amount of the ACL and corresponding provision for credit losses. These credit metrics evaluate the credit quality and level of credit risk inherent in our loan portfolio, assess non-performing loans and charge-offs levels, considers statistical trends and economic conditions and other applicable factors.

Three months ended June 30, 2021 compared to three months ended June 30, 2020

There was no provision for credit loss for the three months ended June 30, 2021 compared to $1.8 million provision expense in June 30, 2020. The primary driver of the decrease was the reduction of the credit risk associated with the COVID-19 pandemic.

Six months ended June 30, 2021 compared to six months ended June 30, 2020

Provision for credit loss for the six months ended June 30, 2021 was a net recovery of $160 thousand compared to $3.3 million provision expense in June 30, 2020. The primary driver of the decrease was the improvement of the credit risk associated with the COVID-19 pandemic. The ACL as a percentage of total loans was 1.30% at June 30, 2021 compared to 1.45% at June 30, 2020.

See "Allowance for Credit Losses" below for further discussion.

Non-Interest Income

Net interest income and other types of recurring non-interest income are generated from our operations. 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 insurance on several 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,	
	2021	**2020**	**2021**	**2020**
Service fees	$ 903	$ 581	$ 1,792	$ 1,459
Gain on sale of securities available for sale, net	187	5	249	423
Gain on sale of loans held for sale, net	23	-	987	228
Other non-interest income	403	371	809	758
Total non-interest income	$ 1,516	$ 957	$ 3,837	$ 2,868

Three months ended June 30, 2021 compared to three months ended June 30, 2020

Non-interest income for the three months ended June 30, 2021 increased $559 thousand or 58.4%, compared to the three months ended June 30, 2020. Deposit service fees, an important driver for non-interest income, is increasing due to improving economic conditions since the onset of the COVID-19 pandemic.

Six months ended June 30, 2021 compared to six months ended June 30, 2020

Non-interest income for the six months ended June 30, 2021 increased $969 thousand or 33.8%, compared to the six months ended June 30, 2020. Deposit service fees, an important driver for non-interest income, is increasing due to improving economic conditions since the onset of the COVID-19 pandemic. Gain on sales of loans increased due to increased activity in our SBA program.

Non-Interest Expense

Management monitors the ratio of non-interest expense to total revenues (net interest income plus non-interest income), which is commonly known as the efficiency ratio (a non-GAAP financial measure).

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,	
	2021	2020	2021	2020
Salaries and employee benefits	$ 5,213	$ 4,792	$ 10,491	$ 9,862
Occupancy	1,411	1,436	2,798	2,835
Regulatory assessment and fees	195	165	373	341
Consulting and legal fees	373	270	558	429
Network and information technology services	332	412	840	749
Other operating	1,150	1,090	2,291	2,175
Total non-interest expense	$ 8,674	$ 8,165	$ 17,351	$ 16,391

Three months ended June 30, 2021 compared to three months ended June 30, 2020

Non-interest expense for the three months ended June 30, 2021 increased $509 thousand or 6.2%, compared to the three months ended June 30, 2020. The increase is primarily due to an increase in salaries and employee benefit costs which is the largest component of non-interest expense.

Six months ended June 30, 2021 compared to six months ended June 30, 2020

Non-interest expense for the six months ended June 30, 2021 increased $960 thousand or 5.9%, compared to the six months ended June 30, 2020. The increase is primarily due to an increase in salaries and employee benefit costs. The number of full-time employees increased from 170 at June 30, 2020 to 183 at June 30, 2021. The increase in salaries and employee benefits and other operating costs has enabled us to support recent growth and has provided us with the necessary technology and required professionals to execute our growth strategy.

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. Surrender value of bank-owned life insurance policies for key employees, purchasing municipal bonds, and overall taxable income will be important elements in determining our effective tax rate.

Three months ended June 30, 2021 compared to three months ended June 30, 2020

Income tax expense for the three months ended June 30 2021 was $1.3 million, compared to $469 thousand for the three months ended June 30, 2020. The effective tax rate for the three months ended June 30, 2021 was 23.76% and for the three months ended June 30 2020, the effective tax rate was 24.52%.

Six months ended June 30, 2021 compared to six months ended June 30, 2020

Income tax expense for the six months ended June 30, 2021 was $2.8 million, compared to $1.0 million for the six months ended June 30, 2020. The effective tax rate for the six months ended June 30, 2021 was 23.81% and for the six months ended June 30, 2020 was 24.53%.

For a further discussion on income taxes, see Note 5 to the consolidated financial statements above.

Analysis of Financial Condition

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

	As of			
	June 30, 2021		December 31, 2020	
Balance Sheet:				
Total assets	$	1,667,005	$	1,501,742
Total loans	$	1,145,095	$	1,038,504
Total deposits	$	1,438,776	$	1,273,402
Total stockholders' equity	$	166,302	$	171,001

	For the three months ended June 30,			
	2021		2020	
Income Statement:				
Net interest income	$	12,474	$	10,871
Total non-interest income	$	1,516	$	957
Total non-interest expense	$	8,674	$	8,165
Pre-tax, pre-provision income ("PTPP") (1)	$	5,316	$	3,663
Net income	$	4,053	$	1,444
Profitability:				
Operating ROAA (1)		0.95%		0.41%
Operating PTPP ROAA (1)		1.24%		1.05%
Efficiency ratio (1)		62.00%		69.03%
Net interest margin		3.14%		3.28%

(1) Reflects non-GAAP financial measure. For a reconciliation of non-GAAP measures see "Reconciliation and Management Explanation of Non-GAAP Financial Measures."

Total assets at June 30, 2021 were $1.7 billion, an increase of $165.3 million, or 11.0%, over total assets of $1.5 billion at December 31, 2020. Total loans increased $106.6 million, or 10.3%, to $1.1 billion at June 30, 2021 compared to $1.0 billion at December 31, 2020. Of this increase, $44.9 million is attributed to the purchase of a yacht loan portfolio in June 2021. Total deposits increased by $165.4 million, or 13.0%, to $1.4 billion between June 30, 2021 and December 31, 2020.

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 Bank's capital market risk exposure. The philosophy of the portfolio is to maximize the Bank's profitability taking into consideration the Bank's risk appetite and tolerance, manage the assets 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 an investment guideline, approved by our 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 Bank, and the interest risk management objective directed by the ALCO. The portfolio of investments 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, 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, or ALCO of the Bank to ensure an appropriate risk and return profile as well as for adherence to the investment policy.

As of June 30, 2021, the totality of the portfolio was classified as AFS. The book values of the AFS securities are adjusted monthly for unrealized gain or loss as a valuation allowance, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in stockholders' equity. Periodically, we may need to assess whether there have been any events or unexpected economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. If the impairment is deemed to be permanent, an analysis would be made considering many factors, including the severity and duration of the impairment, the severity of the event, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, any related credit events, and for debt securities, external credit ratings and recent downgrades related to deterioration of credit quality. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value, with the write-down recorded as a realized loss under line item "Gain on sale of securities available for sale, net" of the Consolidated Statements of Income. As of June 30, 2021, there are no securities which management has classified as other-than-temporarily impaired ("OTTI"). For further discussion of our analysis on impaired investment securities for OTTI, see Note 2 to the consolidated financial statements herein.

Investment securities increased $61.5 million or 18.4% to $395.8 million at June 30, 2021 from $334.3 million at December 31, 2020. The book value of the securities increased over the past year due to higher than expected cash balances. Management reinvested idle cash balances into high credit quality investments to increase the Bank's profitability and modify the Bank's balance sheet duration according to the ALM policy. As of June 30, 2021, AFS securities having a market value of $9.8 million were pledged to secure public deposits.

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

	June 30, 2021		December 31, 2020	
Available-for-sale:	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
U.S. Government Agency -SBA	$ 12,074	$ 12,213	$ 1,488	$ 1,552
U.S. Government Agency	17,991	17,471	20,196	20,032
Collateralized mortgage obligations	133,270	131,517	104,426	104,650
Mortgage-backed securities - Residential	106,476	105,682	80,110	81,301
Mortgage-backed securities - Commercial	45,201	46,459	45,802	48,331
Municipal securities	28,822	27,964	24,230	24,211
Bank subordinated debt securities	24,004	25,337	24,004	24,630
Corporate bonds	27,720	29,161	27,733	29,615
	$ 395,558	$ 395,804	$ 327,989	$ 334,322

The following table shows the weighted average yields, categorized by contractual maturity, for AFS investment securities as of June 30, 2021 (in thousands):

	Due in one year or less		After one year through five years		After five years through ten years		After ten years		Total	
	Book Value	**Weighted Avg Yield**	**Book Value**	**Weighted Avg Yield**	**Book Value**	**Weighted Avg Yield**	**Book Value**	**Weighted Avg Yield**	**Book Value**	**Weighted Avg Yield**
Available-for-sale:										
U.S. Government Agency - SBA	$ -	0.00%	$ -	0.00%	$ 4,029	1.67%	$ 8,045	1.61%	$ 12,074	1.63%
U.S. Government Agency	-	0.00%	2,997	0.63%	14,994	1.25%	-	0.00%	17,991	1.15%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	133,270	1.53%	133,270	1.53%
Mortgage-backed securities - Residential	-	0.00%	-	0.00%	11,883	2.65%	94,593	1.95%	106,476	2.03%
Mortgage-backed securities - Commercial	-	0.00%	-	0.00%	3,035	1.79%	42,166	2.05%	45,201	2.03%
Municipal securities	-	0.00%	-	0.00%	3,618	1.69%	25,204	2.10%	28,822	2.05%
Bank subordinated debt securities	-	0.00%	-	0.00%	23,004	5.26%	1,000	6.13%	24,004	5.29%
Corporate bonds	3,988	2.98%	18,673	3.51%	5,059	2.83%	-	0.00%	27,720	3.31%
	$ 3,988		$ 21,670		$ 65,622		$ 304,278		$ 395,558	2.10%

Loans

Loans is the largest category of interest-earning assets, and usually provides higher yields than the rest of the interest-earning assets. Higher yields typically carry inherent credit and liquidity risks in comparison to lower yield assets. The Bank manages and mitigates such risks in accordance with the credit and ALM policies, risk tolerance and balance sheet composition.

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

	June 30, 2021		December 31, 2020	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 213,575	18.6%	$ 232,754	22.4%
Commercial Real Estate	673,944	58.7%	606,425	58.3%
Commercial and Industrial	155,440	13.5%	157,330	15.1%
Foreign Banks	62,042	5.4%	38,999	3.7%
Consumer and Other	43,979	3.8%	5,507	0.5%
Total gross loans	1,148,980	100.0%	1,041,015	100.0%
Less: Unearned income	3,885		2,511	
Total loans net of unearned income	1,145,095		1,038,504	
Less: ACL	14,848		15,086	
Total net loans	$ 1,130,247		$ 1,023,418	

Total gross loans increased by $108.0 million or 10.4% at June 30, 2021 compared to December 31, 2020. The most significant growth in loans was in the commercial real estate portfolio, which increased by $67.5 million.

The loan portfolio has continued to experience growth in the past two years. Since the Company's inception, the primary focus has been on commercial real estate lending, which represented approximately 58.7% of our total gross loan portfolio as of June 30, 2021. In the past, we supplemented our core commercial growth with the origination of 1-4 family residential loans and the acquisition of 1-4 family residential loan portfolios in order to further diversify our loan portfolio. However, we have determined not to further pursue this line of business and are focused on growing our commercial portfolio. The recent increase in commercial and industrial loans is explained by the Bank's participation in the SBA PPP.

Other than the previous mentioned shifts, we do not expect any significant changes over the foreseeable future in the composition of our loan portfolio or in our emphasis on commercial real estate lending. 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 over the last couple of 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 lengthy 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, 2021 (in thousands):

	Due in 1 year or less	Due in 1 to 5 years	Due after 5 years	Total
Residential Real Estate	$ 24,497	$ 77,130	$ 111,948	$ 213,575
Commercial Real Estate	166,747	452,743	54,454	673,944
Commercial and Industrial	131,570	13,959	9,911	155,440
Foreign Banks	62,042	-	-	62,042
Consumer and Other	5,756	-	38,223	43,979
Total gross loans	$ 390,612	$ 543,832	$ 214,536	$ 1,148,980
Interest rate sensitivity:				
Fixed interest rates	$ 257,561	$ 103,771	$ 50,478	$ 411,810
Floating or adjustable rates	133,051	440,061	164,058	737,170
Total gross loans	$ 390,612	$ 543,832	$ 214,536	$ 1,148,980

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, 2021, approximately 64.2% of the loans have adjustable/variable rates and 35.8% of the loans have fixed rates. The adjustable/variable 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 Bank from a decrease in interest rates 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 Bank's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

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

Pass	Special Mention	Substandard	Doubtful	Loss
Loans indicate different levels of satisfactory financial condition and performance.	Loans 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 Bank's credit position at some future date.	Loans are inadequately protected by the current net worth and paying capacity of the obligator or of the collateral pledged, if any. These loans demonstrate weaknesses that can jeopardize the liquidation of the debt. The Bank may sustain some loss if the deficiencies are not corrected.	Loans have all the weaknesses inherent to 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.	Loans are considered uncollectible.

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

	June 30, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 209,286	$ -	$ 4,289	$ -	$ 213,575
Commercial Real Estate	672,187	-	1,757	-	673,944
Commercial and Industrial	155,233	-	207	-	155,440
Foreign Banks	62,042	-	-	-	62,042
Consumer and Other	43,728	-	251	-	43,979
	$ 1,142,476	$ -	$ 6,504	$ -	$ 1,148,980

	December 31, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 225,861	$ -	$ 6,893	$ -	$ 232,754
Commercial Real Estate	605,180	-	1,245	-	606,425
Commercial and Industrial	157,097	-	233	-	157,330
Foreign Banks	38,999	-	-	-	38,999
Consumer and Other	5,229	-	278	-	5,507
	$ 1,032,366	$ -	$ 8,649	$ -	$ 1,041,015

Non-Performing Assets

The following table presents non-performing assets as of the dates indicated (in thousands):

	June 30, 2021	December 31, 2020
Non-accrual loans, less non-accrual TDR loans	$ 20	$ 303
Non-accrual TDRs	-	1,275
Loans past due over 90 days and still accruing	-	-
Total non-performing loans	20	1,578
Other real estate owned	-	-
Total non-performing assets	$ 20	$ 1,578
Asset quality ratios:		
ACL to total loans	1.30%	1.45%
ACL to non-performing loans	74240%	956%
Net charge-offs to average loans	0.06%	0.02%
Non-performing loans to total loans	0.00%	0.15%

Non-performing assets include all loans categorized as non-accrual or restructured, impaired securities, non-accrual TDRs, 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 Bank's income for a loan with increased credit risk. If the principal or interest on an asset becomes due and unpaid for 90 days or more, the asset 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. 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 Bank has a documented expectation of repayment of the remaining contractual principal and interest or the loan becomes secured and in the process of collection.

A TDR is a debtor that is experiencing financial difficulties and the Bank grants a concession. This determination is performed during the annual review process or whenever problems are surfacing regarding the client's ability to repay in accordance with the original terms of the loan or line of credit. In general, a borrower that can obtain funds from sources other than the Bank at market interest rates at or near those for non-troubled debt is not involved in a troubled debt restructuring. 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.

The following tables present performing and non-performing TDRs (in thousands):

	June 30, 2021		
	Accruing	Non-Accruing	Total
Residential Real Estate	$ 8,093	$ -	$ 8,093
Commercial Real Estate	713	-	713
Commercial and Industrial	164	20	184
Consumer and Other	251	-	251
	$ 9,221	$ 20	$ 9,241

	December 31, 2020		
	Accruing	Non-Accruing	Total
Residential Real Estate	$ 8,884	$ 777	$ 9,661
Commercial Real Estate	733	-	733
Commercial and Industrial	179	23	202
Consumer and Other	278	-	278
	$ 10,074	$ 800	$ 10,874

The Bank had allocated $429 thousand and $453 thousand of specific allowance for TDR loans at June 30, 2021 and December 31, 2020, respectively. There was no commitment to lend additional funds at June 30, 2021 and December 31, 2020.

TDR charge-offs totaled $153 thousand at December 31, 2020. There were no TDR charge-offs for the three and six months ended June 30, 2021. The Bank did not have new TDR loans for the three and six months ended June 30, 2021.

There were no defaults on TDR loans for the year ended December 31, 2020 and for the three and six months ended June 30, 2021.

The Bank provided financial relief to borrowers impacted by COVID-19 and provided modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from TDR classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. During the year ended December 31, 2020, the Bank had modified 132 loans with outstanding balances of $185.9 million. At December 31, 2020, two modified loans totaling $777 thousand were classified as non-accrual and two modified loans totaling $1.4 million were past due. At June 30, 2021, there was only one modified loan for $988 thousand that was past-due.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. This evaluation is performed by the Bank’s Credit department based on internally derived parameters.

Allowance for Credit Losses (“ACL”)

In determining the balance of the allowance account, loans are pooled by product segments with similar risk characteristics and management evaluates the ACL on each segment and as a whole on a regular basis to maintain the allowance at an adequate level based on factors which, in management’s judgment, deserve current recognition in estimating credit losses. Such factors include changes in prevailing economic conditions, historical loss experience, delinquency trends, changes in the composition and size of the loan portfolio and the overall credit worthiness of the borrowers.

The following table presents a summary of changes in the ACL for the periods indicated (in thousands):

	Three Months Ended June 30,	
	2021	2020
Beginning balance for allowance for credit losses	$ 15,009	$ 13,621
Charge-offs:		
Residential Real Estate	(229)	(12)
Commercial Real Estate	-	(61)
Commercial and Industrial	-	-
Foreign Banks	-	-
Consumer and Other	(1)	(7)
	(230)	(80)
Recoveries:		
Residential Real Estate	4	7
Commercial Real Estate	-	1
Commercial and Industrial	64	24
Foreign Banks	-	-
Consumer and Other	1	-
	69	32
Net charge-offs	(161)	(48)
Provision for credit losses	-	1,750
Ending balance for allowance for credit losses	$ 14,848	$ 15,323
Ratios:		
Allowance for credit losses to total loans	1.30%	1.45%
Net charge-offs to average loans (1)	-0.06%	-0.02%

(1) Annualized.

The following table represents the allocation of the ACL losses to specific loan categories for the periods indicated (in thousands):

	June 30, 2021		December 31, 2020	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 2,540	17.1%	$ 3,408	22.6%
Commercial Real Estate	8,752	58.9%	9,453	62.7%
Commercial and Industrial	2,467	16.6%	1,689	11.2%
Foreign Banks	554	3.7%	348	2.3%
Consumer and Other	535	3.6%	188	1.2%
	$ 14,848	100.0%	$ 15,086	100.0%

Bank-Owned Life Insurance

At June 30, 2021, the combined cash surrender value of all Bank-owned life insurance ("BOLI") policies was $26.3 million. In 2021, the Bank maintained BOLI policies with four insurance carriers. The Bank is the beneficiary of these policies.

Deposits

Customer deposits are the primary funding source for the Bank's growth. Through our network of branches, we offer a competitive array of deposit accounts and treasury management services designed to meet our customers' business needs. Our primary deposit customers are 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. Our focus on quality and customer service has created a strong brand recognition within our depositors, which reflects in the composition of our deposits; most of our funding sources are core deposits.

Additionally, our personal and private banking management line of business is focused on the needs of the owners and operators of our business customers, offering a suite of checking, savings, money market and time deposit accounts, and utilizing superior client service to build and expand client relationships. A unique aspect of our business model is our ability to offer correspondent services to banks in Central America and the Caribbean.

Average balances and rates paid on deposits were as follows for the periods indicated (in thousands):

	Three Months Ended June 30,			
	2021		2020	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest bearing demand deposits	$ 535,894	0.00%	$ 395,621	0.00%
Interest-bearing demand deposits	52,620	0.11%	43,480	0.41%
Saving and money market deposits	607,752	0.35%	440,505	0.69%
Time deposits	235,899	0.65%	286,884	1.83%
	$ 1,432,165	0.26%	$ 1,166,490	0.73%

	Six Months Ended June 30,			
	2021		2020	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest bearing demand deposits	$ 509,283	0.00%	$ 357,457	0.00%
Interest-bearing demand deposits	48,607	0.12%	45,343	0.40%
Saving and money market deposits	588,282	0.37%	433,057	0.88%
Time deposits	241,993	0.78%	280,398	1.94%
	$ 1,388,165	0.30%	$ 1,116,255	0.84%

Total average deposits for the three months ended June 30, 2021 were $1.4 billion, an increase of $265.7 million, or 22.8% over total average deposits of $1.2 billion for the three months ended June 30, 2020. Our focus on demand deposits has resulted in an increase in average balances of $140.3 million, or 35.5%, in non-interest bearing demand deposits and an increase of $167.2 million, or 38.0%, in saving and money market deposits when comparing the average balances for the three months ended June 30, 2021 and 2020.

Total average deposits for the six months ended June 30, 2021 were $1.4 billion, an increase of $271.9 million, or 24.4% over total average deposits of $1.1 billion for the six months ended June 30, 2020.

Total estimated uninsured deposits were $755.2 million and $606.1 million at June 30, 2021 and December 31, 2020, respectively. The uninsured deposits are estimated based on the deposit insurance limits which is up to $250 thousand on total deposits per account holder.

The following table presents the maturities of time deposits as of June 30, 2021 (in thousands):

	Three months or less	Over three months through one year	Over one year through three years	Over three years	Total
Time deposits of $250,000 or less	$ 35,168	$ 60,796	$ 15,732	$ 1,590	$ 113,286
Time deposits over $250,000	30,720	56,017	6,155	20,028	112,920
	$ 65,888	$ 116,813	$ 21,887	$ 21,618	$ 226,206

Borrowings

As a member of the FHLB, the Bank is eligible for 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 Bank.

At June 30, 2021 and December 31, 2020, there was $36.0 million of fixed rate advances from the FHLB outstanding with a weighted average rate of 1.52%. Most of the advances are due in the first two quarters of 2025.

The following table presents the FHLB fixed rate advances as of June 30, 2021 (in thousands):

Interest Rate	Maturity Date	Amount
0.81%	August 17, 2023	$ 5,000
1.04%	July 30, 2024	5,000
2.05%	March 27, 2025	10,000
1.91%	March 28, 2025	5,000
1.81%	April 17, 2025	5,000
1.07%	July 18, 2025	6,000
		$ 36,000

We have also established Fed Funds lines of credit with our upstream correspondent banks to manage temporary fluctuations in our daily cash balances. As of June 30, 2021, there were no outstanding balances with the Fed Funds line of credit.

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 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 as we do for on-balance sheet items.

The following table presents lending related commitments outstanding for the periods indicated (in thousands):

	June 30, 2021	June 30, 2020
Commitments to grant loans and unfunded lines of credit	$ 119,805	$ 94,583
Standby and commercial letters of credit	3,357	1,137
	$ 123,162	$ 95,720

Asset and Liability Management ("ALM")

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

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

While some degree of IRR is inherent to the banking business, our ALCO has established sound risk management practices in place to identify, measure, monitor and mitigate IRR exposures.

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

Income simulations are used to assess the impact of changing rates on earnings under different 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 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 bank also evaluates the economic value of equity, or EVE. This assessment will allow us to measure the degree to which the economic values of the Bank 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, 2021, we were an asset sensitive bank. This 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. 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 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 EVEs do not include actions that management may undertake to manage the risks in response to anticipated changes in interest rates or client/ deposits behavior. As part of our ALM strategy and policy, management hast the ability to modify the balance sheet to either increase asset duration and decrease liability duration in order 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, 2021, the net interest margin, or NIM, will remain fairly stable for static rate scenarios (-400 basis points; +400 basis points). For the static forecast for year two, the NIM will increase from 3.05% base case scenario to 3.55% under a +400 basis points scenario. Additionally, utilizing an economic value of equity, or 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 than an increase of rates will have a negative impact on the EVE. Results and analysis are presented quarterly to the Board, and strategies are defined.

Liquidity

Liquidity is defined as a bank's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Bank'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 Bank.

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 Bank'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 or exposure to credit, market, operational, legal and reputational risks, including cyber security risk could also affect the Bank's liquidity risk profile unexpectedly and are considered in the assessment of liquidity and 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 Bank, liquidity risk management is integrated into our risk management processes and ALM policy.

Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the Board and active involvement by 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 Bank; 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 certificates of deposit, Fed funds lines and borrowings from the FHLB. Accordingly, our liquidity resources were at sufficient levels to fund loans and meet other cash needs as necessary. We do not expect liquidity resources to be compromised during the rest of the year.

Capital Adequacy

As of June 30, 2021, the Bank was well capitalized under the FDIC's prompt corrective action framework. Additionally, we follow the capital conservation buffer framework, and according to our actual ratios the Bank exceeds the capital conversation buffer in all capital ratios as of June 30, 2021. The following table presents the capital ratios at June 30, 2021 and December 31, 2020 (in thousands):

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2021:						
Total risk-based capital (to risk weighted assets)	$ 142,246	12.69%	$ 89,657	8.00%	$ 112,071	10.00%
Tier 1 capital (to risk weighted assets)	$ 128,225	11.44%	$ 67,243	6.00%	$ 89,657	8.00%
Common Tier 1 capital (to risk weighted assets)	$ 103,609	9.24%	$ 50,432	4.50%	$ 72,846	6.50%
Tier 1 capital (to average total assets)	$ 128,225	7.91%	$ 64,870	4.00%	$ 81,087	5.00%
December 31, 2020:						
Total risk-based capital (to risk weighted assets)	$ 139,326	14.24%	$ 78,260	8.00%	$ 97,825	10.00%
Tier 1 capital (to risk weighted assets)	$ 127,061	12.99%	$ 58,695	6.00%	$ 78,260	8.00%
Common Tier 1 capital (to risk weighted assets)	$ 94,984	9.71%	$ 44,021	4.50%	$ 63,587	6.50%
Tier 1 capital (to average total assets)	$ 127,061	8.61%	$ 59,053	4.00%	$ 73,817	5.00%

Impact of Inflation

Our consolidated financial statements and related notes have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike 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. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods or services. For the rest of 2021, some transitory inflationary pressure is expected.

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 pre-tax, pre-provision (PTPP) income, operating PTPP return on average assets (operating PTPP ROAA), and operating return on average assets (operating ROAA) for the periods presented (in thousands):

	As of and for the three months ended				
	6/30/2021	3/31/2021	12/31/2020	9/30/2020	6/30/2020
PTPP Income:					
Net Income	$ 4,053	$ 4,781	$ 4,239	$ 3,402	$ 1,444
Plus: Provision for income taxes	1,263	1,498	449	1,106	469
Plus: Provision for (recovery of) loan losses	-	(160)	-	-	1,750
PTPP income	$ 5,316	$ 6,119	$ 4,688	$ 4,508	$ 3,663
Operating PTPP ROAA:					
Operating PTPP income	$ 5,129	$ 6,057	$ 4,677	$ 4,508	$ 3,658
Average assets	$ 1,660,060	$ 1,573,881	$ 1,522,735	$ 1,460,732	$ 1,404,417
Operating PTPP Return on average assets (1)	1.24%	1.56%	1.22%	1.23%	1.05%
Operating ROAA:					
Operating net income	$ 3,912	$ 4,734	$ 4,231	$ 3,402	$ 1,440
Average assets	$ 1,660,060	$ 1,573,881	$ 1,522,735	$ 1,460,732	$ 1,404,417
Operating return on average assets (1)	0.95%	1.22%	1.11%	0.93%	0.41%

(1) Annualized.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company, such as U.S. Century Bank, is not required to provide the information by this Item. For certain quantitative and qualitative disclosures regarding market risks in our portfolio, see Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market and Interest Rate Risk Management" above.

Item 4 Controls and Procedures

U.S. Century Bank (the "Company") maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that are filed under the Exchange Act is accumulated and communicated to management, including the Bank's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal controls during the period covered by this Report that have materially affected or are reasonably likely to materially affect the Bank's internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

On June 24, 2021, two shareholders filed a Complaint for Injunctive Relief against three of our directors in the United States District Court, Southern District (*Rasco et al. v. Wycoff et al.*, Case No. 1:21-cv-22325 MGCJJO), alleging breach of fiduciary duty and requesting, among other things, that the directors be enjoined from exchanging their respective shares of Preferred Stock in the Exchange Transactions (the "Exchange Offer Litigation"). On June 28, 2021, a Motion to Dismiss was filed by one of the director defendants for lack of subject matter jurisdiction, which motion is pending. On July 12, 2021, the plaintiff shareholders filed a First Amended Complaint (the "Amended Complaint"), adding the Bank as a defendant. The Amended Complaint alleges federal securities fraud claims against the Bank and the three directors relating to the Exchange Transactions, alleging that the disclosures regarding the Exchange Transactions to holders of Preferred Stock were inadequate and that the Bank is not permitted to engage in the Exchange Transactions under the terms of its Articles of Incorporation and asking the court to enjoin the Bank from effecting the Exchange Transactions. We believe that the allegations in the lawsuit are legally and factually without merit, and we intend to vigorously defend against the allegations in the lawsuit, pursue any potential counterclaims against the plaintiffs as we deem appropriate, and seek coverage from our insurance carriers. See under "Risk Factors—*Litigation, including recent litigation relating to the Exchange Transactions, or regulatory and enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities*" of the Offering Circular that was filed with the FDIC on July 15, 2021 for further discussion on certain risks related to this lawsuit.

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

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 with regard to the Exchange Offer Litigation, could have a material adverse effect or 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

There were no material changes to the risk factors previously disclosed in our Offering Circular on Form 10 that was filed with the FDIC on July 15, 2021.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

In July 2021, the Company sold a total of 4.6 million shares of Class A common stock. The securities were sold at a price of $10.00 per share and began trading on the Nasdaq Global Market under ticker symbol "USCB" on July 23, 2021. For further discussion about these securities and the initial public offering, see Note 14 "Subsequent Events" above.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibits

The Exhibits listed below are included as part of this Report.

Exhibit No.	Description	Location
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

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.

Date: August 16, 2021

/s/ Luis de la Aguilera

Luis de la Aguilera
President and Chief Executive Officer

/s/ Rob Anderson

Rob Anderson
Chief Financial Officer

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 U.S. Century Bank;

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

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

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

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

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

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

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

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

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

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

/s/ Luis de la Aguilera

Luis de la Aguilera
President and Chief Executive Officer

Date: August 16, 2021

Exhibit 31.2

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

I, Rob Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Century Bank;

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

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

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

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

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

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

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

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

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

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

/s/ Rob Anderson

Rob Anderson
Chief Financial Officer

Date: August 16, 2021

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 U.S. Century Bank (the "Company") on Form 10-Q for the quarter ended June 30, 2021, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Luis de la Aguilera, as 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 16, 2021

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 U.S. Century Bank (the "Company") on Form 10-Q for the quarter ended June 30, 2021, as filed with the Federal Deposit Insurance Corporation 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 16, 2021