# 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 September 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**<br>**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 November 8, 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

(Dollars in thousands, except per share data)

| | September 30, 2021 (Unaudited) | December 31, 2020 |
|---|---|---|
| **Assets:** | | |
| Cash and due from banks | $ 9,290 | $ 9,828 |
| Interest-bearing deposits in banks | 60,307 | 37,906 |
| Total cash & cash equivalents | 69,597 | 47,734 |
| Investment securities held to maturity (fair value $99,421) | 99,866 | - |
| Investment securities available for sale, at fair value | 328,171 | 334,322 |
| Federal Home Loan Bank stock, at cost | 2,100 | 2,711 |
| Loans held for investment, net of allowance of $14,900 and $15,086, respectively | 1,161,512 | 1,023,418 |
| Accrued interest receivable | 6,077 | 5,547 |
| Property and equipment, net | 5,165 | 6,347 |
| Assets held for sale | 652 | - |
| Bank owned life insurance | 26,460 | 25,961 |
| Deferred tax asset, net | 35,478 | 39,159 |
| Lease right-of-use asset | 15,179 | 14,513 |
| Other assets | 4,754 | 2,030 |
| Total assets | $ 1,755,011 | $ 1,501,742 |
| **Liabilities:** | | |
| Deposits: | | |
| Demand | $ 570,091 | $ 442,467 |
| Money market and savings accounts | 632,717 | 527,373 |
| Interest-bearing checking accounts | 51,677 | 45,132 |
| Time deposits over $250,000 | 121,752 | 104,140 |
| Time deposits $250,000 or less | 108,352 | 154,290 |
| Total deposits | 1,484,589 | 1,273,402 |
| Federal Home Loan Bank advances | 36,000 | 36,000 |
| Lease liability | 15,179 | 14,513 |
| Accrued interest and other liabilities | 17,325 | 6,826 |
| Total liabilities | 1,553,093 | 1,330,741 |
| **Commitments and contingencies (see Note 8)** | | |
| **Stockholders' Equity:** | | |
| Preferred stock - Class C; $1.00 par value; $1,000 per share liquidation preference; 52,748 shares authorized; 0 and 52,748 issued and outstanding as of September 30, 2021 and December 31, 2020 | - | 12,325 |
| Preferred stock - Class D; $1.00 par value; $5.00 per share liquidation preference; 12,309,480 shares authorized; 0 and 12,290,631 issued and outstanding as of September 30, 2021 and December 31, 2020 | - | 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 September 30, 2021 and December 31, 2020 | - | 7,461 |
| Common stock - Class A Voting; $1.00 par value; 45,000,000 shares authorized; 18,767,541 and 3,889,469 issued and outstanding as of September 30, 2021 and December 31, 2020 (1) | 18,768 | 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 September 30, 2021 and December 31, 2020 | 6,121 | 6,121 |
| Additional paid-in capital on common stock | 305,741 | 177,755 |
| Accumulated deficit | (129,897) | (53,622) |
| Accumulated other comprehensive income | 1,185 | 4,781 |
| Total stockholders' equity | 201,918 | 171,001 |
| Total liabilities and stockholders' equity | $ 1,755,011 | $ 1,501,742 |

(1) Class A common stock outstanding and additional paid-in-capital for December 31, 2020 were adjusted to reflect the 1 for 5 reverse stock split. See Note 10 "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 - Unaudited

(Dollars in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Interest income:** | | | | |
| Loans, including fees | $ 12,538 | $ 11,819 | $ 35,944 | $ 35,528 |
| Investment securities | 1,858 | 1,274 | 5,670 | 3,756 |
| Interest-bearing deposits in financial institutions | 38 | 52 | 77 | 261 |
| Total interest income | 14,434 | 13,145 | 41,691 | 39,545 |
| **Interest expense:** | | | | |
| Interest-bearing deposits | 16 | 38 | 45 | 128 |
| Savings and money markets accounts | 501 | 660 | 1,572 | 2,550 |
| Time deposits | 306 | 1,127 | 1,239 | 3,845 |
| Federal Home Loan Bank advances | 140 | 207 | 415 | 925 |
| Total interest expense | 963 | 2,032 | 3,271 | 7,448 |
| Net interest income before provision for credit losses | 13,471 | 11,113 | 38,420 | 32,097 |
| Provision for credit losses | - | - | (160) | 3,250 |
| Net interest income after provision for credit losses | 13,471 | 11,113 | 38,580 | 28,847 |
| **Non-interest income:** | | | | |
| Service fees | 856 | 777 | 2,648 | 2,236 |
| Gain (loss) on sale of securities available for sale, net | (70) | - | 179 | 423 |
| Gain on sale of loans held for sale, net | 532 | 612 | 1,519 | 840 |
| Loan settlement | 2,500 | - | 2,500 | - |
| Other non-interest income | 399 | 386 | 1,208 | 1,146 |
| Total non-interest income | 4,217 | 1,775 | 8,054 | 4,645 |
| **Non-interest expense:** | | | | |
| Salaries and employee benefits | 5,313 | 4,907 | 15,804 | 14,769 |
| Occupancy | 1,192 | 1,419 | 3,990 | 4,254 |
| Regulatory assessment and fees | 317 | 179 | 690 | 520 |
| Consulting and legal fees | 357 | 342 | 915 | 771 |
| Network and information technology services | 358 | 407 | 1,198 | 1,156 |
| Other operating | 1,470 | 1,124 | 3,761 | 3,300 |
| Total non-interest expense | 9,007 | 8,378 | 26,358 | 24,770 |
| Net income before income tax expense | 8,681 | 4,510 | 20,276 | 8,722 |
| Income tax expense | 2,088 | 1,106 | 4,849 | 2,139 |
| Net income | 6,593 | 3,404 | 15,427 | 6,583 |
| Preferred stock dividend | 542 | 782 | 2,077 | 2,345 |
| Exchange and redemption of preferred shares | 89,585 | - | 89,585 | - |
| Net income (loss) available to common stockholders | $ (83,534) | $ 2,622 | $ (76,235) | $ 4,238 |
| **Per share information:** (1) | | | | |
| Class A common stock (2) | | | | |
| Net income (loss) per share, basic | $ (5.11) | $ 0.51 | $ (8.57) | $ 0.83 |
| Net income (loss) per share, diluted | $ (5.11) | $ 0.51 | $ (8.57) | $ 0.82 |
| Class B common stock | | | | |
| Net income (loss) per share, basic | $ (1.02) | $ 0.10 | $ (1.71) | $ 0.17 |
| Net income (loss) per share, diluted | $ (1.02) | $ 0.10 | $ (1.71) | $ 0.17 |

(1) See Note 11 "Earnings per Share" for information on the allocation of income available to common stockholders.

(2) For the three and nine months ended September 30, 2020, the common stock outstanding, weighted average shares and net income per share for the Class A common stock were adjusted to reflect the 1 for 5 reverse stock split that occurred in June of 2021.

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

**U.S. CENTURY BANK AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income - Unaudited

(Dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net income | $ 6,593 | $ 3,404 | $ 15,427 | $ 6,583 |
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss) on investment securities | 1,210 | 302 | (4,627) | 5,496 |
| Amortization of net unrealized gains on investment securities transferred from available for sale to held to maturity | 43 | - | 43 | - |
| Reclassification adjustment for loss (gain) included in net income | 70 | - | (179) | (423) |
| Tax effect | (324) | - | 1,167 | (1,170) |
| Total other comprehensive income (loss), net of tax | 999 | 302 | (3,596) | 3,903 |
| Total comprehensive income | $ 7,592 | $ 3,706 | $ 11,831 | $ 10,486 |

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 Common Stock | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | | | | |
| Balance at July 1, 2021 | 12,343,379 | $ 24,616 | 10,010,521 | $ 10,010 | $ 177,852 | $ (46,362) | $ 186 | $ 166,302 |
| Net income | - | - | - | - | - | 6,593 | - | 6,593 |
| Other comprehensive income | - | - | - | - | - | - | 999 | 999 |
| Dividends - preferred stock | - | - | - | - | - | (542) | - | (542) |
| Issuance of Class A common stock, net of offering costs of $6,048 | - | - | 4,600,000 | 4,600 | 35,352 | - | - | 39,952 |
| Exchange of preferred stock | (11,109,025) | (22,154) | 10,278,072 | 10,279 | 92,503 | (80,628) | - | - |
| Redemption of preferred stock | (1,234,354) | (2,462) | - | - | - | (8,958) | - | (11,420) |
| Stock based compensation | - | - | - | - | 34 | - | - | 34 |
| Balance at September 30, 2021 | - | $ - | 24,888,593 | $ 24,889 | $ 305,741 | $ (129,897) | $ 1,185 | $ 201,918 |
| | | | | | | | | |
| Balance at July 1, 2020 (1) | 12,350,879 | $ 32,077 | 10,008,521 | $ 10,008 | $ 177,671 | $ (59,699) | $ 5,558 | $ 165,615 |
| Net income | - | - | - | - | - | 3,404 | - | 3,404 |
| Other comprehensive income | - | - | - | - | - | - | 302 | 302 |
| Dividends - preferred stock | - | - | - | - | - | (782) | - | (782) |
| Stock based compensation | - | - | - | - | 47 | - | - | 47 |
| Balance at September 30, 2020 | 12,350,879 | $ 32,077 | 10,008,521 | $ 10,008 | $ 177,718 | $ (57,077) | $ 5,860 | $ 168,586 |

| | Preferred Stock | | Common Stock | | Additional Paid-in Common Stock | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | | | | |
| 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 | - | - | - | - | - | 15,427 | - | 15,427 |
| Other comprehensive loss | - | - | - | - | - | - | (3,596) | (3,596) |
| Dividends - preferred stock | - | - | - | - | - | (2,077) | - | (2,077) |
| Issuance of Class A common stock, net of offering costs of $6,048 | - | - | 4,600,000 | 4,600 | 35,352 | - | - | 39,952 |
| Exchange of preferred stock | (11,109,025) | (22,154) | 10,278,072 | 10,279 | 92,503 | (80,628) | - | - |
| Redemption of preferred stock | (1,241,854) | (9,923) | - | - | - | (8,997) | - | (18,920) |
| Stock based compensation | - | - | - | - | 131 | - | - | 131 |
| Balance at September 30, 2021 | - | $ - | 24,888,593 | $ 24,889 | $ 305,741 | $ (129,897) | $ 1,185 | $ 201,918 |
| | | | | | | | | |
| 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 | - | - | - | - | - | 6,583 | - | 6,583 |
| Other comprehensive income | - | - | - | - | - | - | 3,903 | 3,903 |
| Dividends - preferred stock | - | - | - | - | - | (2,345) | - | (2,345) |
| Stock based compensation | - | - | - | - | 163 | - | - | 163 |
| Balance at September 30, 2020 | 12,350,879 | $ 32,077 | 10,008,521 | $ 10,008 | $ 177,718 | $ (57,077) | $ 5,860 | $ 168,586 |

(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 10 "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)

| | Nine Months Ended | |
|---|---|---|
| | **2021** | **2020** |
| **Cash flows from operating activities:** | | |
| Net income | $ 15,427 | $ 6,583 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | (160) | 3,250 |
| Depreciation and amortization | 844 | 948 |
| Amortization of premiums on securities, net | 402 | 236 |
| Accretion of deferred loan fees, net | (2,893) | (3,216) |
| Stock based compensation | 131 | 163 |
| Gain on sale of available for sale securities | (179) | (423) |
| Gain on sale of loans held for sale | (1,519) | (840) |
| Increase in cash surrender value of bank owned life insurance | (499) | (1,047) |
| Decrease in deferred tax asset | 4,849 | 2,139 |
| Net change in operating assets and liabilities: | | |
| Accrued interest receivable | (530) | (2,028) |
| Other assets | (2,724) | 1,153 |
| Accrued interest and other liabilities | 10,499 | 7,583 |
| Net cash provided by operating activities | 23,648 | 14,501 |
| **Cash flows from investing activities:** | | |
| Purchase of investment securities held to maturity | (31,919) | - |
| Proceeds from maturities and pay-downs of investment securities held to maturity | 645 | - |
| Purchase of investment securities available for sale | (158,333) | (48,781) |
| Proceeds from maturities and pay-downs of investment securities available for sale | 41,966 | 31,530 |
| Proceeds from sales of investment securities available for sale | 48,939 | 13,224 |
| Proceeds from call of investment securities available for sale | - | 2,140 |
| Net decrease in loans held for investment | (55,451) | (45,453) |
| Purchase of loans held for investment | (93,677) | - |
| Additions to property and equipment | (314) | (272) |
| Proceeds from the sale of loans held for sale | 15,606 | 9,296 |
| Proceeds from the redemption of Federal Home Loan Bank stock | 611 | 4,760 |
| Net cash used in investment activities | (231,927) | (33,556) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of Class A common stock, net | 39,952 | - |
| Cash dividends paid | (2,077) | (2,345) |
| Redemption of Preferred stock Class C | (5,275) | - |
| Redemption of Preferred stock Class D | (6,145) | - |
| Redemption of Preferred stock Class E | (7,500) | - |
| Net increase in deposits | 211,187 | 234,997 |
| Proceeds from Federal Home Loan Bank advances | - | 79,000 |
| Repayments on Federal Home Loan Bank advances | - | (149,000) |
| Net cash provided by financing activities | 230,142 | 162,652 |
| Net increase in cash and cash equivalents | 21,863 | 141,670 |
| Cash and cash equivalents at beginning of year | 47,734 | 35,741 |
| Cash and cash equivalents at end of year | $ 69,597 | $ 177,411 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $ 3,329 | $ 7,548 |
| **Supplemental schedule of non-cash investing and financing activities:** | | |
| Transfer of loans held for investment to loans held for sale | $ 14,087 | $ 8,456 |
| Transfer of investment securities AFS to investment securities HFS | $ 68,667 | $ - |
| Transfer of property and equipment to assets held for sale | $ 652 | $ - |
| Lease liability arising from obtaining right-of-use assets | $ 666 | $ - |
| Exchange of Preferred C for Class A common stock | $ 47,473 | $ - |
| Exchange of Preferred D for Class A common stock | $ 55,308 | $ - |

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 September 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.

While there was not a material impact to the Bank's consolidated financial statements as of and for the quarter ended September 30, 2021, 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, other liabilities, and proceeds from issuance of Class A common shares.

### 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 September 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 $155.2 million and $141.5 million, respectively. At September 30, 2021 and December 31, 2020, this concentration represented 13.4% and 13.8% of the net loans outstanding, respectively.

At September 30, 2021, the Bank also had a concentration of risk with loans outstanding totaling $58.2 million to foreign banks located in Ecuador, Honduras, Panama, and El Salvador. For the period ended 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 $29.8 million and $13.2 million at September 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 September 30, 2021 and December 31, 2020, FHLB stock amounted to $2.1 million and $2.7 million, respectively. As of September 30, 2021 and December 31, 2020, FHLB stock was not deemed impaired by the Bank. Both cash and stock dividends are reported as interest 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 non-interest income. As of September 30, 2021, the Bank maintained BOLI policies with four insurance carriers. At September 30, 2021, the combined cash surrender value of all polices was $26.5 million. 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 11 "Earnings Per Share" for additional information on earnings per common share. See Note 10 "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**

Measurement of Credit Losses on Financial Instruments

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.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In January 2021, the FASB clarified the scope of this guidance with ASU 2021-01 which provides optional guidance for a limited period of time to ease the burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This ASU is effective 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, unrealized gains, unrealized losses, and fair value of investment securities are as follows (in thousands):

| | September 30, 2021 | | | |
|---|---|---|---|---|
| **Available-for-sale:** | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| Collateralized mortgage obligations | $ 130,253 | $ 62 | $ (1,447) | $ 128,868 |
| Mortgage-backed securities - Residential | 93,022 | 386 | (1,196) | 92,212 |
| Mortgage-backed securities - Commercial | 40,114 | 1,143 | (201) | 41,056 |
| Municipal securities | 25,184 | 25 | (473) | 24,736 |
| Bank subordinated debt securities | 24,004 | 1,564 | - | 25,568 |
| Corporate bonds | 15,068 | 663 | - | 15,731 |
| | $ 327,645 | $ 3,843 | $ (3,317) | $ 328,171 |
| **Held-to-maturity:** | | | | |
| U.S. Government Agency - SBA | $ 12,159 | $ - | $ (155) | $ 12,004 |
| U.S. Government Agency | 17,594 | 87 | (9) | 17,672 |
| Collateralized mortgage obligations | 29,045 | - | (188) | 28,857 |
| Mortgage-backed securities - Residential | 24,590 | 7 | (145) | 24,452 |
| Mortgage-backed securities - Commercial | 3,107 | - | (22) | 3,085 |
| Corporate bonds | 13,371 | 3 | (23) | 13,351 |
| | $ 99,866 | $ 97 | $ (542) | $ 99,421 |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| **Available-for-sale:** | **Amortized Cost** | **Unrealized Gains** | **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 |

For the quarter ended September 30, 2021, there were 28 investment securities that were transferred from available-for-sale (“AFS”) to held-to-maturity (“HTM”) with an amortized cost basis and fair value amount of $67.6 million and $68.7 million, respectively. On the date of transfer, these securities had a total net unrealized gain of $1.1 million.

Transfers of debt securities into the HTM category from the AFS category are made at fair value at the date of transfer. The unrealized gain or loss at the date of transfer is retained in other comprehensive income and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining life of the security. There was no impact to net income on the date of transfer.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Available-for-sale:** | **2021** | **2020** | **2021** | **2020** |
| Proceeds from sales and call of securities | $ 5,674 | $ - | $ 48,939 | $ 13,224 |
| | | | | |
| Gross Gains | $ 72 | $ - | $ 510 | $ 423 |
| Gross Losses | (142) | - | (331) | - |
| Net realized gains (losses) | $ (70) | $ - | $ 179 | $ 423 |

The amortized cost and fair value of investment securities at September 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.

| | Available-for-sale | | Held-to-maturity | |
|---|---|---|---|---|
| **September 30, 2021:** | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| Due within one year | $ 1,999 | $ 2,015 | $ 2,027 | $ 2,027 |
| Due after one year through five years | 8,971 | 9,386 | 11,344 | 11,324 |
| Due after five years through ten years | 27,102 | 28,732 | - | - |
| Due after ten years | 26,184 | 25,902 | - | - |
| U.S Government Agency - SBA | - | - | 12,159 | 12,004 |
| U.S Government Agency | - | - | 17,594 | 17,672 |
| Collateralized mortgage obligations | 130,253 | 128,868 | 29,045 | 28,857 |
| Mortgage-backed securities - Residential | 93,022 | 92,212 | 24,590 | 24,452 |
| Mortgage-backed securities - Commercial | 40,114 | 41,056 | 3,107 | 3,085 |
| | $ 327,645 | $ 328,171 | $ 99,866 | $ 99,421 |

At September 30, 2021 and December 31, 2020, there were no securities to any one issuer, in an amount greater than 10% of total stockholders' equity other than the United States Government and Government Agencies. All the collateralized mortgage obligations and mortgage-backed securities are issued by United States sponsored entities for period ended September 30, 2021 and December 31, 2020.

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

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Less than 12 months | | Less than 12 Months | |
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| U.S. Government Agency - SBA | $ 3,005 | $ (2) | $ - | $ - |
| U.S. Government Agency | 17,672 | (319) | 14,030 | (168) |
| Collateralized mortgage obligations | 143,877 | (1,655) | 49,185 | (162) |
| Mortgage-backed securities - Residential | 71,663 | (1,349) | 41,611 | (177) |
| Mortgage-backed securities - Commercial | 7,928 | (181) | 8,219 | (20) |
| Municipal securities | 21,711 | (473) | 3,878 | (58) |
| Bank subordinated debt securities | - | - | 995 | (5) |
| | $ 265,856 | $ (3,979) | $ 117,918 | $ (590) |

The unrealized losses associated with $67.2 million of investment securities transferred from the AFS portfolio to the HTM portfolio during the quarter ended September 30, 2021, represent unrealized losses since the date of purchase, independent of the impact associated with changes in the cost basis upon transfer between portfolios. There were no individual AFS or HTM investment securities with a continuous, unrealized loss for twelve months or more at September 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

("OTTI") basis. Management considers several factors in their analysis including (1) severity and duration of the impairment, (2) credit rating of the 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 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.

As of September 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 September 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 September 30, 2021, the Bank had seven Corporate Bonds with a fair value of $12.8 million pledged to the State of Florida under the public funds program. The Bank held a total of $24.7 million in public funds at September 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):

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Total | Percent of Total | Total | Percent of Total |
| Residential Real Estate | $ 201,124 | 17.1% | $ 232,754 | 22.4% |
| Commercial Real Estate | 693,469 | 58.8% | 606,425 | 58.3% |
| Commercial and Industrial | 137,486 | 11.7% | 157,330 | 15.1% |
| Foreign Banks | 58,839 | 5.0% | 38,999 | 3.7% |
| Consumer and Other | 87,515 | 7.4% | 5,507 | 0.5% |
| Total gross loans | 1,178,433 | 100.0% | 1,041,015 | 100.0% |
| Less: Unearned income | 2,021 | | 2,511 | |
| Total loans net of unearned income | 1,176,412 | | 1,038,504 | |
| Less: ACL | 14,900 | | 15,086 | |
| Total net loans | $ 1,161,512 | | $ 1,023,418 | |

At September 30, 2021 and December 31, 2020, the Bank had approximately $195.5 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 $58.0 million at September 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 $2.4 million at September 30, 2021 and $1.8 million at December 31, 2020.

The Bank recognized $2.8 million in PPP loan fees during the nine months ended September 30, 2021, which is reported in interest and fees on loans within the Consolidated Statements of Operations.

Changes in the allowance for credit losses for the three and nine months ended September 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 September 30, 2021:** | | | | | | |
| Beginning balance | $ 2,540 | $ 8,752 | $ 2,467 | $ 554 | $ 535 | $ 14,848 |
| Provision for credit losses | (787) | 719 | 277 | (29) | (180) | - |
| Recoveries | 48 | - | 3 | - | 3 | 54 |
| Charge-offs | - | - | - | - | (2) | (2) |
| Ending Balance | $ 1,801 | $ 9,471 | $ 2,747 | $ 525 | $ 356 | $ 14,900 |
| | | | | | | |
| **Three Months Ended September 30, 2020:** | | | | | | |
| Beginning balance | $ 4,275 | $ 8,500 | $ 2,337 | $ 148 | $ 63 | $ 15,323 |
| Provision for credit losses | (253) | 425 | (303) | 125 | 6 | - |
| Recoveries | 63 | - | 75 | - | 1 | 139 |
| Charge-offs | (224) | (30) | - | - | (1) | (255) |
| Ending Balance | $ 3,861 | $ 8,895 | $ 2,109 | $ 273 | $ 69 | $ 15,207 |

| | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Foreign Banks | Consumer and Other | Total |
|---|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2021:** | | | | | | |
| Beginning balance | $ 3,408 | $ 9,453 | $ 1,689 | $ 348 | $ 188 | $ 15,086 |
| Provision for credit losses | (1,434) | 18 | 904 | 177 | 175 | (160) |
| Recoveries | 56 | - | 154 | - | 5 | 215 |
| Charge-offs | (229) | - | - | - | (12) | (241) |
| Ending Balance | $ 1,801 | $ 9,471 | $ 2,747 | $ 525 | $ 356 | $ 14,900 |
| | | | | | | |
| **Nine Months Ended September 30, 2020:** | | | | | | |
| Beginning balance | $ 3,749 | $ 6,591 | $ 1,214 | $ 332 | $ 112 | $ 11,998 |
| Provision for credit losses | 184 | 2,456 | 707 | (59) | (38) | 3,250 |
| Recoveries | 164 | 1 | 188 | - | 12 | 365 |
| Charge-offs | (236) | (153) | - | - | (17) | (406) |
| Ending Balance | $ 3,861 | $ 8,895 | $ 2,109 | $ 273 | $ 69 | $ 15,207 |

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

| | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Foreign Banks | Consumer and Other | Total |
|---|---|---|---|---|---|---|
| **September 30, 2021:** | | | | | | |
| Allowance for Credit Losses: | | | | | | |
| Individually evaluated for impairment | $ 198 | $ - | $ 92 | $ - | $ 113 | $ 403 |
| Collectively evaluated for impairment | 1,603 | 9,471 | 2,655 | 525 | 243 | 14,497 |
| Balances, end of period | $ 1,801 | $ 9,471 | $ 2,747 | $ 525 | $ 356 | $ 14,900 |
| Loans: | | | | | | |
| Individually evaluated for impairment | $ 7,867 | $ 705 | $ 169 | $ - | $ 245 | $ 8,986 |
| Collectively evaluated for impairment | 193,257 | 692,764 | 137,317 | 58,839 | 87,270 | 1,169,447 |
| Balances, end of period | $ 201,124 | $ 693,469 | $ 137,486 | $ 58,839 | $ 87,515 | $ 1,178,433 |
| **December 31, 2020:** | | | | | | |
| 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 |
| Balances, end of period | $ 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 |
| Balances, end of period | $ 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. Internal credit risk grades are evaluated at least annually, or more frequently if deemed necessary.

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

| | |
|---|---|
| **Pass** | Loans indicate different levels of satisfactory financial condition and performance. |
| **Special Mention** | 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. |
| **Substandard** | 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. |
| **Doubtful** | Loans have all the weaknesses inherent to those classified at substandard, with the added characteristic that the weaknesses make collection or liquidation in full based on currently existing facts, conditions, and values, highly questionable and improbable. |
| **Loss** | 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 September 30, 2021 | | | | | As of December 31, 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total Loans | Pass | Special Mention | Substandard | Doubtful | Total Loans |
| ***Residential real estate:*** | | | | | | | | | | |
| HELOC and other | $ 716 | $ - | $ - | $ - | $ 716 | $ 905 | $ - | $ - | $ - | $ 905 |
| 1-4 family residential | 130,306 | - | 3,413 | - | 133,719 | 151,940 | - | 6,748 | - | 158,688 |
| Condo residential | 66,689 | - | - | - | 66,689 | 73,016 | - | 145 | - | 73,161 |
| | $ 197,711 | $ - | $ 3,413 | $ - | $ 201,124 | $ 225,861 | $ - | $ 6,893 | $ - | $ 232,754 |
| ***Commercial real estate:*** | | | | | | | | | | |
| Land and construction | $ 38,083 | $ - | $ - | $ - | $ 38,083 | $ 37,348 | $ - | $ - | $ - | $ 37,348 |
| Multi family residential | 131,330 | - | - | - | 131,330 | 111,047 | - | - | - | 111,047 |
| Condo commercial | 43,720 | - | 423 | - | 44,143 | 37,171 | - | 442 | - | 37,613 |
| Commercial property | 479,797 | - | - | - | 479,797 | 415,967 | - | 803 | - | 416,770 |
| Leasehold improvements | 116 | - | - | - | 116 | 3,647 | - | - | - | 3,647 |
| | $ 693,046 | $ - | $ 423 | $ - | $ 693,469 | $ 605,180 | $ - | $ 1,245 | $ - | $ 606,425 |
| ***Commercial and industrial:*** | | | | | | | | | | |
| Secured | $ 73,297 | $ - | $ 170 | $ - | $ 73,467 | $ 44,255 | $ - | $ 202 | $ - | $ 44,457 |
| Unsecured | 64,001 | - | 18 | - | 64,019 | 112,842 | - | 31 | - | 112,873 |
| | $ 137,298 | $ - | $ 188 | $ - | $ 137,486 | $ 157,097 | $ - | $ 233 | $ - | $ 157,330 |
| | | | | | | | | | | |
| Foreign banks | $ 58,839 | $ - | $ - | $ - | $ 58,839 | $ 38,999 | $ - | $ - | $ - | $ 38,999 |
| Consumer and other loans | $ 87,270 | $ - | $ 245 | $ - | $ 87,515 | $ 5,229 | $ - | $ 278 | $ - | $ 5,507 |
| | | | | | | | | | | |
| Total | $ 1,174,164 | $ - | $ 4,269 | $ - | $ 1,178,433 | $ 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 September 30, 2021 and December 31, 2020 (in thousands):

| | | Accruing | | | | |
|---|---|---|---|---|---|---|
| **As of September 30, 2021:** | **Current** | **Past Due 30-89 Days** | **Past Due > 90 Days and Still Accruing** | **Total Accruing** | **Non-Accrual** | **Total Loans** |
| ***Residential real estate:*** | | | | | | |
| HELOC and other | $ 716 | $ - | $ - | $ 716 | $ - | $ 716 |
| 1-4 family residential | 132,529 | 1,190 | - | 133,719 | - | 133,719 |
| Condo residential | 66,381 | 308 | - | 66,689 | - | 66,689 |
| | $ 199,626 | $ 1,498 | $ - | $ 201,124 | $ - | $ 201,124 |
| ***Commercial real estate:*** | | | | | | |
| Land and construction | $ 38,083 | $ - | $ - | $ 38,083 | $ - | $ 38,083 |
| Multi family residential | 131,330 | - | - | 131,330 | - | 131,330 |
| Condo commercial | 44,143 | - | - | 44,143 | - | 44,143 |
| Commercial property | 477,490 | 2,307 | - | 479,797 | - | 479,797 |
| Leasehold improvements | 116 | - | - | 116 | - | 116 |
| | $ 691,162 | $ 2,307 | $ - | $ 693,469 | $ - | $ 693,469 |
| ***Commercial and industrial:*** | | | | | | |
| Secured | $ 73,049 | $ 400 | $ - | $ 73,449 | $ 18 | $ 73,467 |
| Unsecured | 64,019 | - | - | 64,019 | - | 64,019 |
| | $ 137,068 | $ 400 | $ - | $ 137,468 | $ 18 | $ 137,486 |
| | | | | | | |
| Foreign banks | $ 58,839 | $ - | $ - | $ 58,839 | $ - | $ 58,839 |
| Consumer and other | $ 87,515 | $ - | $ - | $ 87,515 | $ - | $ 87,515 |
| | | | | | | |
| Total | $ 1,174,210 | $ 4,205 | $ - | $ 1,178,415 | $ 18 | $ 1,178,433 |

| As of December 31, 2020: | Current | | Past Due 30-89 Days | | Accruing Past Due > 90 Days and Still Accruing | | Total Accruing | | Non-Accrual | | Total Loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Residential real estate:*** | | | | | | | | | | | | |
| 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 |
| | $ | 228,309 | $ | 2,890 | $ | - | $ | 231,199 | $ | 1,555 | $ | 232,754 |
| ***Commercial real estate:*** | | | | | | | | | | | | |
| 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 |
| | $ | 606,287 | $ | 138 | $ | - | $ | 606,425 | $ | - | $ | 606,425 |
| ***Commercial and industrial:*** | | | | | | | | | | | | |
| Secured | $ | 44,378 | $ | 56 | $ | - | $ | 44,434 | $ | 23 | $ | 44,457 |
| Unsecured | | 112,873 | | - | | - | | 112,873 | | - | | 112,873 |
| | $ | 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 was no interest income recognized attributable to nonaccrual loans outstanding at September 30, 2021 and December 31, 2020. Interest income on these loans through September 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):

| | September 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 | $ | 3,853 | $ | 3,846 | $ | - | $ | 5,100 | $ | 5,093 | $ | - |
| Commercial real estate | | 705 | | 704 | | - | | 733 | | 732 | | - |
| Commercial and industrial | | - | | - | | - | | - | | - | | - |
| Consumer and other | | - | | - | | - | | - | | - | | - |
| | | 4,558 | | 4,550 | | - | | 5,833 | | 5,825 | | - |
| **Impaired Loans with Specific Allowance Recorded:** | | | | | | | | | | | | |
| Residential real estate | | 4,014 | | 3,978 | | 198 | | 5,339 | | 5,302 | | 220 |
| Commercial real estate | | - | | - | | - | | - | | - | | - |
| Commercial and industrial | | 169 | | 169 | | 92 | | 202 | | 202 | | 108 |
| Consumer and other | | 245 | | 245 | | 113 | | 278 | | 278 | | 125 |
| | | 4,428 | | 4,392 | | 403 | | 5,819 | | 5,782 | | 453 |
| Total | $ | 8,986 | $ | 8,942 | $ | 403 | $ | 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Residential real estate | $ 7,980 | $ 6,967 | $ 8,738 | $ 5,976 |
| Commercial real estate | 709 | 2,790 | 611 | 1,968 |
| Commercial and industrial | 177 | 381 | 187 | 238 |
| Foreign banks | - | - | - | - |
| Consumer and other | 248 | - | 262 | - |
| Total | $ 9,114 | $ 10,138 | $ 9,798 | $ 8,182 |

Interest income recognized on impaired loans for the three months ended September 30, 2021 and 2020 was $99 thousand and $57 thousand, respectively. Interest income recognized on impaired loans for the nine months ended September 30, 2021 and 2020 was $313 thousand and $252 thousand, respectively.

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

| | September 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total TDRs | Accrual Status | Non-Accrual Status | Total TDRs |
| Residential real estate | $ 7,867 | $ - | $ 7,867 | $ 8,884 | $ 777 | $ 9,661 |
| Commercial real estate | 705 | - | 705 | 733 | - | 733 |
| Commercial and industrial | 151 | 18 | 169 | 179 | 23 | 202 |
| Consumer and other | 245 | - | 245 | 278 | - | 278 |
| Total | $ 8,968 | $ 18 | $ 8,986 | $ 10,074 | $ 800 | $ 10,874 |

The Bank had allocated $403 thousand and $453 thousand of specific allowance for TDR loans at September 30, 2021 and December 31, 2020, respectively. There was no commitment to lend additional funds to these TDR customers at September 30, 2021 and December 31, 2020. There were no charge-offs of TDR loans during the periods ended September 30, 2021 and 2020.

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

| | Recorded Investment Prior to Modification | | | | Recorded Investment After Modification | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Loans | Payment Modifications | Combination Modifications | Total Modifications | Number of Loans | Payment Modifications | Combination Modifications | Total Modifications |
| Residential real estate | 3 | $ 198 | $ 514 | $ 712 | 3 | $ 198 | $ 514 | $ 712 |
| Commercial real estate | 1 | - | 451 | 451 | 1 | - | 451 | 451 |
| Commercial and industrial | 2 | - | 230 | 230 | 2 | - | 219 | 219 |
| | 6 | $ 198 | $ 1,195 | $ 1,393 | 6 | $ 198 | $ 1,184 | $ 1,382 |

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

## 4. INCOME TAXES

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **Deferred tax assets:** | | |
| Net operating loss | $ 30,756 | $ 35,506 |
| Allowance for credit losses | 3,776 | 3,824 |
| Deferred loan fees | 512 | 636 |
| Depreciable property | 342 | 285 |
| Stock option compensation | 202 | 169 |
| Accruals | 345 | 349 |
| Other, net | 22 | 7 |
| Deferred tax asset | 35,955 | 40,776 |
| **Deferred tax liability:** | | |
| Unrealized gain on available for sale securities | (385) | (1,553) |
| Deferred rent | (92) | (64) |
| Deferred tax liability | (477) | (1,617) |
| Net deferred tax asset | $ 35,478 | $ 39,159 |

The actual income tax expense for September 30, 2021 and September 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):

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Federal taxes at statutory rate | $ 4,258 | $ 1,832 |
| State income taxes, net of federal tax benefit | 710 | 305 |
| Bank owned life insurance | (122) | (134) |
| Other, net | 3 | 136 |
| Total | $ 4,849 | $ 2,139 |

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| **Current:** | | |
| Federal | $ - | $ - |
| State | - | - |
| Total current | - | - |
| **Deferred:** | | |
| Federal | 3,962 | 1,688 |
| State | 887 | 451 |
| Total deferred | 4,849 | 2,139 |
| Total provision | $ 4,849 | $ 2,139 |

The Bank has approximately $117.5 million of Federal and $140.1 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 September 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.

## 5. STOCK OPTION PLANS

Stock option balances, weighted average exercise price, and weighted average fair value of options granted for the nine months ended September 30, 2021 and September 30, 2020 were adjusted to reflect the 1 for 5 reverse stock split on Class A common stock. Stock options are only exercisable to Class A common stock See Note 10 “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 shareholders 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. The approved shares after being adjusted to reflect the 1 for 5 reverse stock split totaled 1,000,000 shares.

At September 30, 2021, there were 1,667 shares available for grant under the 2015 Option Plan. At September 30, 2020, there were 613,667 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 prorated 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. Compensation expense totaling $131 thousand was recognized for the nine months ended September 30, 2021 and $163 thousand for the nine months ended September 30, 2020. Compensation expense totaling $34 thousand was recognized for the three months ended September 30, 2021 and $47 thousand for the three months ended September 30, 2020. There was no related tax benefit for the period ended September 30, 2021 and 2020.

Unrecognized compensation cost remaining on stock-based compensation totaled $1.4 million as of September 30, 2021 and $104 thousand as of September 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 | 1.49% |
| Expected term | 10 years |
| Expected stock price volatility | 10% |
| Dividend yield | 0% |

A summary of stock options are as follows for the nine months ended September 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 | 620,000 | $ 11.69 | | |
| Balance at September 30, 2021 | 959,667 | $ 10.87 | 8.6 | |
| Exercisable at September 30, 2021 | 317,667 | $ 9.06 | 6.3 | $ 480 |
| Balance at January 1, 2020 | 365,667 | $ 9.30 | 8.5 | |
| Forfeited | (16,000) | $ 8.50 | | |
| Balance at September 30, 2020 | 349,667 | $ 9.31 | 7.3 | |
| Exercisable at September 30, 2020 | 250,333 | $ 8.64 | 6.8 | $ 680 |

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 nine months ended September 30, 2021, was $2.38 and $2.32, respectively.

## 6. 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):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Commitments to grant loans and unfunded lines of credit | $ 121,655 | $ 107,553.00 |
| Standby and commercial letters of credit | 2,857 | 1,813 |
| Total | $ 124,512 | $ 109,366 |

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.

## 7. 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 are 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 of $39.4 million at September 30, 2021, maturing between 2025 and 2051. The Bank entered into corresponding and offsetting derivatives with third parties. The fair value of liability on these derivatives requires the Bank to provide the counterparty with funds to be held as collateral. While these derivatives represent economic hedges, it does not qualify as hedges for accounting purposes.

The following table reflects the Bank's customer related interest rate swaps for the dates indicated (in thousands):

| | | | | Fair Value | |
|---|---|---|---|---|---|
| | Notional Amount | Collateral Amount | Balance Sheet Location | Asset | Liability |
| **September 30, 2021:** | | | | | |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps related to customer loans | $ 39,368 | $ 1,260 | Other assets / Other liabilities | $ 1,156 | $ 1,156 |
| **December 31, 2020:** | | | | | |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps related to customer loans | $ 30,611 | $ 260 | Other assets / Other liabilities | $ 500 | $ 500 |

## 8. COMMITMENTS AND CONTINGENCIES

Loss contingencies, including claims and legal actions may arise in the ordinary course of business. In the opinion of management, none of these actions, either individually or in the aggregate, is expected to have a material adverse effect on the consolidated financial statements.

## 9. 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 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 September 30, 2021 and December 31, 2020 for each of the fair value hierarchy levels (in thousands):

| | September 30, 2021 | | | | December 31, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investment securities available for sale: | | | | | | | | |
| U.S. Government Agency - SBA | $ - | $ - | $ - | $ - | $ - | $ 1,552 | $ - | $ 1,552 |
| U.S. Government Agency | - | - | - | - | - | 20,032 | - | 20,032 |
| Collateralized mortgage obligations | - | 128,868 | - | 128,868 | - | 104,650 | - | 104,650 |
| Mortgage-backed securities - Residential | - | 92,212 | - | 92,212 | - | 81,301 | - | 81,301 |
| Mortgage-backed securities - Commercial | - | 41,056 | - | 41,056 | - | 48,331 | - | 48,331 |
| Municipal Securities | - | 24,736 | - | 24,736 | - | 24,211 | - | 24,211 |
| Bank subordinated debt securities | - | 25,568 | - | 25,568 | - | 24,630 | - | 24,630 |
| Corporate Bond | - | 15,731 | - | 15,731 | - | 29,615 | - | 29,615 |
| Total investment securities available for sale | - | 328,171 | - | 328,171 | - | 334,322 | - | 334,322 |
| Derivative assets | - | 1,156 | - | 1,156 | - | 500 | - | 500 |
| **Total assets at fair value** | $ - | $329,327 | $ - | $329,327 | $ - | $334,822 | $ - | $334,822 |
| Derivative liabilities | $ - | $ 1,156 | $ - | $ 1,156 | $ - | $ 500 | $ - | $ 500 |
| **Total liabilities at fair value** | $ - | $ 1,156 | $ - | $ 1,156 | $ - | $ 500 | $ - | $ 500 |

### *Items Measured at Fair Value on a Nonrecurring Basis*

**Impaired Loans:** At September 30, 2021 and December 31, 2020, in accordance with provisions of the loan impairment guidance, individual loans with a carrying amount of approximately $4.4 million and $5.8 million, respectively, were written down to their fair value of approximately $4.0 million and $5.4 million, respectively, resulting in an impairment charge of $403 thousand and $453 thousand, respectively, which was included in the allowance for credit losses at September 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 September 30, 2021 and December 31, 2020 for each of the fair value hierarchy levels (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **September 30, 2021:** | | | | |
| Impaired loans | $ - | $ - | $ 4,025 | $ 4,025 |
| | | | | |
| **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 September 30, 2021 and December 31, 2020 (in thousands):

| | Fair Value | Valuation Technique(s) | Unobservable Input(s) |
|---|---|---|---|
| **September 30, 2021:** | | | |
| Residential real estate | $ 3,816 | Sales comparison approach | Adjustment for differences between comparable sales |
| Commercial and industrial | 77 | Discounted cash flow | Adjustment for differences in net operating income expectations |
| Other | 132 | Discounted cash flow | Adjustment for differences in net operating income expectations |
| Total impaired loans | $ 4,025 | | |
| | | | |
| **December 31, 2020:** | | | |
| 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 impaired loans | $ 5,366 | | |

There were no financial liabilities measured at fair value on a nonrecurring basis at September 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 September 30, 2021 and December 31, 2020 are as follows (in thousands):

| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **September 30, 2021:** | | | | | |
| Financial Assets: | | | | | |
| Cash and due from banks | $ 9,290 | $ 9,290 | $ - | $ - | $ 9,290 |
| Interest-bearing deposits in banks | $ 60,307 | $ 60,307 | $ - | $ - | $ 60,307 |
| Investment securities held to maturity | $ 99,866 | $ - | $ 99,421 | $ - | $ 99,421 |
| Loans held for investment, net | $ 1,161,512 | $ - | $ - | $ 1,183,893 | $ 1,183,893 |
| Accrued interest receivable | $ 6,077 | $ - | $ 1,427 | $ 4,650 | $ 6,077 |
| Financial Liabilities: | | | | | |
| Demand Deposits | $ 570,091 | $ 570,091 | $ - | $ - | $ 570,091 |
| Money market and savings accounts | $ 632,717 | $ 632,717 | $ - | $ - | $ 632,717 |
| Interest-bearing checking accounts | $ 51,677 | $ 51,677 | $ - | $ - | $ 51,677 |
| Time deposits | $ 230,104 | $ - | $ - | $ 230,193 | $ 230,193 |
| FHLB advances | $ 36,000 | $ - | $ 36,921 | $ - | $ 36,921 |
| Accrued interest payable | $ 98 | $ - | $ 49 | $ 49 | $ 98 |
| | | | | | |
| **December 30, 2020:** | | | | | |
| 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 |

## 10. STOCKHOLDERS' EQUITY

### *Common Stock*

The rights of the holders of Class A common stock and Class B common stock are the same, except for voting and conversion rights. Holders of Class A common stock are entitled to voting rights, while holders of Class B common stock have no voting rights. Shares of Class B common stock are convertible into shares of Class A common stock if sold or transferred.

### *Initial Public Offering*

On July 27, 2021, the Bank closed on the Initial Public Offering ("IPO") of its Class A common stock, in which it issued and sold 4,600,000 shares of Class A common stock at a price of $10.00 per share. The Bank received total net proceeds of $40.0 million after deducting underwriting discounts and expenses.

### *Exchange and Redemption of Class C and Class D Preferred Stock*

The Bank offered the Class C and Class D preferred stockholders the ability to exchange their shares for Class A common stock. The offer to exchange was voluntary and the preferred stockholders were given the option to convert 90% of their preferred shares for Class A common stock with the remaining 10% to be redeemed in the form of cash. The exchange ratio for the shares of Class A common stock issued in the exchange transaction was based upon the IPO price for shares of Class A common stock.

During the quarter-ended September 30, 2021, 47,473 shares of Class C preferred stock and 11,061,552 shares of Class D preferred stock converted into 10,278,072 shares of Class A common stock. The exchange of the Class C and Class D preferred shares had a total liquidation value of $102.8 million. The remaining unconverted shares of Class C preferred stock and Class D preferred stock totaling 1,234,354 shares were subsequently redeemed at liquidation value for $11.4 million.

The fair value of consideration on the exchange and redemption of the Class C and Class D preferred shares exceeded the book value causing a one-time reduction in net income available to common stockholders of $89.6 million. As of September 30, 2021, there were no preferred shares and no outstanding dividends to be paid.

***Dividends***

The Board of Directors (the "Board") approved the dividends on the preferred shares for the dates indicated as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 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 preference paid quarterly. Quarterly dividend of $10.00 per share. | $ 440 | $ 528 | $ 1,494 | $ 1,582 |
| **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. | 102 | 123 | 348 | 369 |
| **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 preference paid quarterly. Quarterly dividend of $17.50 per share. | - | 131 | 235 | 394 |
| Total dividends paid | $ 542 | $ 782 | $ 2,077 | $ 2,345 |

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 had a set dividend payment date on the fifteenth 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 September 30, 2021 and 2020. Additionally, there were no dividends declared and unpaid at September 30, 2021 and 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 adjusted the Class A common stock, earnings per share and stock options adjusted for this 1 for 5 reverse stock split for all periods here. 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 Consolidated Statements of Changes in Stockholders' Equity. See Note 5 "Stock Option Plans" and Note 11 "Earnings Per Share" for further details.

## 11. EARNINGS PER SHARE

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

In calculating EPS, 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 net income to Common B stockholders be adjusted to give effect for Class A stock splits. Therefore, the income allocated to Class B common shares was calculated based on their 20% per share equivalent to Class A common shares to give effect to the 1 for 5 reverse stock split of Class A common shares. The earnings per share for 2020 was also calculated based on the Bank's 1 for 5 reverse stock split for Class A common shares.

The following table reflects the calculation of net income (loss) available to common stockholders before being allocable between Class A and Class B common shares for the periods shown (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net Income | $ 6,593 | $ 3,404 | $ 15,427 | $ 6,583 |
| Less: Preferred stock dividends | 542 | 782 | 2,077 | 2,345 |
| Less: Exchange and redemption of preferred shares | 89,585 | - | 89,585 | - |
| Net income (loss) available to common stockholders | $ (83,534) | $ 2,622 | $ (76,235) | $ 4,238 |

The following table reflects the calculation of basic and diluted earnings (loss) per common share class for the periods indicated (in thousands, except per share amounts):

| | Three Months Ended September 30, 2021 | | Three Months Ended September 30, 2020 | |
|---|---|---|---|---|
| | Class A | Class B [(1)] | Class A | Class B [(1)] |
| **Basic EPS** | | | | |
| **Numerator:** | | | | |
| Net income (loss) available to common shares before allocation | $ (83,534) | $ (83,534) | $ 2,622 | $ 2,622 |
| Multiply: % allocated on weighted avg. shares outstanding | 92.51% | 7.49% | 76.05% | 23.95% |
| Net income (loss) available to common shares after allocation | $ (77,278) | $ (6,256) | $ 1,994 | $ 628 |
| **Denominator:** | | | | |
| Weighted average shares outstanding | 15,121,460 | 6,121,052 | 3,887,469 | 6,121,052 |
| **Earnings (loss) per share, basic** | $ (5.11) | $ (1.02) | $ 0.51 | $ 0.10 |
| **Diluted EPS** | | | | |
| **Numerator:** | | | | |
| Net income (loss) available to common shares before allocation | $ (83,534) | $ (83,534) | $ 2,622 | $ 2,622 |
| Multiply: % allocated on weighted avg. shares outstanding | 92.51% | 7.49% | 76.05% | 23.95% |
| Net income (loss) available to common shares after allocation | $ (77,278) | $ (6,256) | $ 1,994 | $ 628 |
| **Denominator:** | | | | |
| Weighted average shares outstanding for basic EPS | 15,121,460 | 6,121,052 | 3,887,469 | 6,121,052 |
| Add: Dilutive effects of assumed exercises of stock options | - | - | 56,986 | - |
| Weighted avg. shares including dilutive potential common shares | 15,121,460 | 6,121,052 | 3,944,455 | 6,121,052 |
| **Earnings (loss) per share, diluted** | $ (5.11) | $ (1.02) | $ 0.51 | $ 0.10 |
| **Anti-dilutive stock options excluded from diluted EPS calculation** | 95,602 | - | 32,334 | - |

(1) Net income (loss) available to common shares was allocated based on the weighted average number of shares outstanding during the period not including dilutive options. The allocation also assumes that Class B shares are converted to Class A which is equivalent to 0.20 per share of Class B or 1,224,212 shares of Class A shares.

| | Nine Months Ended September 30, 2021 | | Nine Months Ended September 30, 2020 | |
|---|---|---|---|---|
| | Class A | Class B (1) | Class A | Class B (1) |
| **Basic EPS** | | | | |
| **Numerator:** | | | | |
| Net income (loss) available to common shares before allocation | $ (76,235) | $ (76,235) | $ 4,238 | $ 4,238 |
| Multiply: % allocated on weighted avg. shares outstanding | 86.24% | 13.76% | 76.10% | 23.90% |
| Net income (loss) available to common shares after allocation | $ (65,747) | $ (10,488) | $ 3,225 | $ 1,013 |
| **Denominator:** | | | | |
| Weighted average shares outstanding | 7,674,609 | 6,121,052 | 3,887,469 | 6,121,052 |
| **Earnings (loss) per share, basic** | $ (8.57) | $ (1.71) | $ 0.83 | $ 0.17 |
| **Diluted EPS** | | | | |
| **Numerator:** | | | | |
| Net income (loss) available to common shares before allocation | $ (76,235) | $ (76,235) | $ 4,238 | $ 4,238 |
| Multiply: % allocated on weighted avg. shares outstanding | 86.24% | 13.76% | 76.10% | 23.90% |
| Net income (loss) available to common shares after allocation | $ (65,747) | $ (10,488) | $ 3,225 | $ 1,013 |
| **Denominator:** | | | | |
| Weighted average shares outstanding for basic EPS | 7,674,609 | 6,121,052 | 3,887,469 | 6,121,052 |
| Add: Dilutive effects of assumed exercises of stock options | - | - | 56,986 | - |
| Weighted avg. shares including dilutive potential common shares | 7,674,609 | 6,121,052 | 3,944,455 | 6,121,052 |
| **Earnings (loss) per share, diluted** | $ (8.57) | $ (1.71) | $ 0.82 | $ 0.17 |
| **Anti-dilutive stock options excluded from diluted EPS calculation** | 168,709 | - | 32,334 | - |

(1) Net income (loss) available to common shares was allocated based on the weighted average number of shares outstanding during the period not including dilutive options. The allocation also assumes that Class B shares are converted to Class A which is equivalent to 0.20 per share of Class B or 1,224,212 shares of Class A shares.

For the three and nine months ended September 30, 2021, the Bank was in a net loss position after adjusting for the exchange and redemption of the Class C and Class D preferred shares, making basic net loss per share the same as diluted net loss per share as the inclusion of all potential common shares outstanding would have been antidilutive.

See Note 10 “Stockholders’ Equity” for further discussion on the stock splits.

## 12. 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 7.10% for September 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 risk-based capital ratio of 8.0%, a total risk-based 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 equity 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 September 30, 2021, $55.7 million of retained earnings is available to pay dividends.

As of September 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 September 30, 2021 and December 31, 2020 (in thousands, except ratios):

| | **Actual** | | **Minimum Capital Requirements** | | **To be Well Capitalized Under Prompt Corrective Action Provisions** | |
|---|---|---|---|---|---|---|
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| **September 30, 2021:** | | | | | | |
| Total risk-based capital | $ 180,170 | 15.10% | $ 95,445 | 8.00% | $ 119,306 | 10.00% |
| Tier 1 risk-based capital | $ 165,255 | 13.85% | $ 71,584 | 6.00% | $ 95,445 | 8.00% |
| Common equity tier 1 capital | $ 165,255 | 13.85% | $ 53,688 | 4.50% | $ 77,549 | 6.50% |
| Leverage ratio | $ 165,255 | 9.69% | $ 68,183 | 4.00% | $ 85,241 | 5.00% |
| **December 31, 2020:** | | | | | | |
| Total risk-based capital | $139,326 | 14.24% | $ 78,260 | 8.00% | $ 97,825 | 10.00% |
| Tier 1 risk-based capital | $127,061 | 12.99% | $ 58,695 | 6.00% | $ 78,260 | 8.00% |
| Common equity tier 1 capital | $ 94,984 | 9.71% | $ 44,021 | 4.50% | $ 63,587 | 6.50% |
| Leverage ratio | $127,061 | 8.61% | $ 59,053 | 4.00% | $ 73,817 | 5.00% |

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

*The following discussion and analysis presents information of the Company's consolidated financial condition as of September 30, 2021, as compared to December 31, 2020, and our results of operations for the three and nine months ended September 30, 2021 and 2020. This discussion and analysis are 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," "the Company" and "the Bank" refer to U.S. Century Bank 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," 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.

**Non-GAAP Financial Measures**

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

**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 banking centers and digital banking platform offers a wide range of commercial products and services tailored to meet the needs of SMBs.

The Company has two classes of common shares, Class A common stock (voting) and Class B common stock (non-voting). The IPO 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". As of September 30, 2021, there were no preferred shares issued and outstanding.

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

Highlights for the quarter ended September 30, 2021 include:

- Annualized return on average assets for the quarter ended September 30, 2021 was 1.50% compared to 0.93% in the third quarter of 2020.
- Annualized return on average stockholders' equity for the quarter ended September 30, 2021 was 13.41% compared to 8.11% in the third quarter of 2020.
- The efficiency ratio for the quarter ended September 30, 2021 decreased to 50.92% compared to 65.02% for the third quarter in 2020.
- The Company purchased a portfolio of yacht loans within the quarter. The portfolio includes loans that are secured by 30 vessels with an aggregate principal balance of $48.0 million.
- The Company classified $100 million of securities to held-to-maturity (HTM) for the quarter ended September 30, 2021.
- Non-performing loans to total loans was less than 0.01% at September 30, 2021 compared to 0.15% at December 31, 2020.
- The Company simplified the capital structure through the exchange and redemption of all outstanding Class C and Class D preferred shares.

**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 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 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 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 September 30, 2021 was $6.6 million, compared with net income of $3.4 million for the same period in 2020. The Company reported net loss per diluted share for the three months ended September 30, 2021 of $5.11 and $1.02 for Class A and Class B common stock, respectively, compared to net income per diluted share for the same period in 2020 of $0.51 and $0.10 for Class A and Class B common stock, respectively. In the third quarter of 2021, the Company completed an exchange of then outstanding preferred shares for Class A common shares and thereafter redeemed the remaining outstanding preferred shares, at a liquidation value that exceeded book value, causing a one-time reduction in net income available to common stockholders of $89.6 million.

Net income for the nine months ended September 30, 2021 was $15.4 million, compared with net income of $6.6 million for the same period in 2020. The Company reported net loss per diluted share for the nine months ended September 30, 2021 of $8.57 and $1.71 for Class A and Class B common stock, respectively, compared to net income per diluted share for the same period in 2020 of $0.82 and $0.17 for Class A and Class B common stock, respectively. The net loss per diluted share for the nine months ended September 30, 2021 was due to the one-time reduction in net income available to common stockholders for the exchange and redemption of the Class C and Class D preferred shares. As of September 30, 2021, there were no outstanding preferred shares.

Operating net income per diluted share (non-GAAP) for the three months ended September 30, 2021 was $0.37 and $0.07 for Class A and Class B common stock, respectively, compared to operating net income per diluted share (non-GAAP) for the same period in 2020 of $0.51 and $0.10 for Class A and Class B, respectively. Operating net income per diluted share (non-GAAP) in the third quarter of 2021 excludes the $89.6 million one-time accounting impact of the exchange and redemption of the preferred shares. To see a reconciliation of non-GAAP measures to GAAP measures refer to section below "Reconciliation and Management Explanation of Non-GAAP Financial Measures".

### *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 September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| | Average Balance | Interest | Yield/Rate (1) | Average Balance | Interest | Yield/Rate (1) |
| **Assets** | | | | | | |
| **Interest-earning assets:** | | | | | | |
| Loans (2) | $ 1,144,275 | $ 12,538 | 4.29% | $ 1,032,264 | $ 11,819 | 4.48% |
| Investment securities (3) | 399,745 | 1,858 | 1.86% | 190,144 | 1,274 | 2.68% |
| Other interest earnings assets | 109,639 | 38 | 0.14% | 151,721 | 52 | 0.14% |
| Total interest-earning assets | 1,653,659 | 14,434 | 3.43% | 1,374,129 | 13,145 | 3.75% |
| Non-interest earning assets | 87,764 | | | 86,603 | | |
| Total assets | $ 1,741,423 | | | $ 1,460,732 | | |
| **Liabilities and stockholders' equity** | | | | | | |
| **Interest-bearing liabilities:** | | | | | | |
| Interest-bearing demand deposits | $ 55,621 | 16 | 0.11% | $ 47,905 | 38 | 0.31% |
| Saving and money market deposits | 627,654 | 501 | 0.32% | 483,754 | 660 | 0.54% |
| Time deposits | 229,055 | 306 | 0.53% | 281,372 | 1,127 | 1.59% |
| Total interest-bearing deposits | 912,330 | 823 | 0.36% | 813,031 | 1,825 | 0.89% |
| Borrowings and repurchase agreements | 36,000 | 140 | 1.52% | 43,935 | 207 | 1.84% |
| Total interest-bearing liabilities | 948,330 | 963 | 0.40% | 856,966 | 2,032 | 0.94% |
| Non-interest bearing demand deposits | 564,928 | | | 409,869 | | |
| Other non-interest-bearing liabilities | 33,156 | | | 27,070 | | |
| Total liabilities | 1,546,414 | | | 1,293,905 | | |
| Stockholders' equity | 195,009 | | | 166,827 | | |
| Total liabilities and stockholders' equity | $ 1,741,423 | | | $ 1,460,732 | | |
| Net interest income | | $ 13,471 | | | $ 11,113 | |
| Net interest spread (4) | | | 3.03% | | | 2.81% |
| Net interest margin (5) | | | 3.19% | | | 3.17% |

(1) Annualized.

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

(3) At fair value except for securities held to maturity.

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

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

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| | Average Balance | Interest | Yield/Rate (1) | Average Balance | Interest | Yield/Rate (1) |
| **Assets** | | | | | | |
| **Interest-earning assets:** | | | | | | |
| Loans (2) | $ 1,101,782 | $ 35,944 | 4.30% | $ 1,023,909 | $ 35,528 | 4.56% |
| Investment securities (3) | 374,318 | 5,670 | 2.02% | 183,456 | 3,756 | 2.73% |
| Other interest earnings assets | 96,561 | 77 | 0.11% | 99,262 | 261 | 0.35% |
| Total interest-earning assets | 1,572,661 | 41,691 | 3.50% | 1,306,628 | 39,545 | 3.98% |
| Non-interest earning assets | 86,407 | | | 91,230 | | |
| Total assets | $ 1,659,068 | | | $ 1,397,857 | | |
| **Liabilities and stockholders' equity** | | | | | | |
| **Interest-bearing liabilities:** | | | | | | |
| Interest-bearing demand deposits | $ 50,971 | 45 | 0.12% | $ 46,203 | 128 | 0.37% |
| Saving and money market deposits | 601,550 | 1,572 | 0.35% | 450,079 | 2,550 | 0.76% |
| Time deposits | 237,633 | 1,239 | 0.70% | 280,725 | 3,845 | 1.83% |
| Total interest-bearing deposits | 890,154 | 2,856 | 0.43% | 777,007 | 6,523 | 1.12% |
| Borrowings and repurchase agreements | 36,000 | 415 | 1.52% | 55,978 | 925 | 2.17% |
| Total interest-bearing liabilities | 926,154 | 3,271 | 0.47% | 832,985 | 7,448 | 1.19% |
| Non-interest bearing demand deposits | 528,035 | | | 375,055 | | |
| Other non-interest-bearing liabilities | 26,954 | | | 25,555 | | |
| Total liabilities | 1,481,143 | | | 1,233,595 | | |
| Stockholders' equity | 177,925 | | | 164,262 | | |
| Total liabilities and stockholders' equity | $ 1,659,068 | | | $ 1,397,857 | | |
| Net interest income | | $ 38,420 | | | $ 32,097 | |
| Net interest spread (4) | | | 3.03% | | | 2.79% |
| Net interest margin (5) | | | 3.22% | | | 3.22% |

(1) Annualized.
(2) Average loan balances include non-accrual loans. Interest income on loans includes accretion of deferred loan fees, net of deferred loan costs.
(3) At fair value except for securities held to maturity.
(4) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
(5) Net interest margin is the ratio of net interest income to total interest-earning assets.

*Three months ended September 30, 2021 compared to the same period in 2020*

Net interest income was $13.5 million for the three months ended September 30, 2021, an increase of $2.4 million or 21.2%, from $11.1 million for the three months ended September 30, 2020. This increase was primarily attributable to higher income from investment securities and lower costs for interest-bearing liabilities due to lower interest rate benchmarks.

The net interest margin was 3.19% for the three months ended September 30, 2021, compared to 3.17% for the three months ended September 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.

*Nine months ended September 30, 2021 compared to the same period in 2020*

Net interest income before the provision for credit loss was $38.4 million for the nine months ended September 30, 2021, an increase of $6.3 million or 19.7%, from $32.1 million for the nine months ended September 30, 2020. This increase was primarily attributable to higher income from investment securities and loan fees as well as lower costs for interest-bearing liabilities resulting from lower interest rate benchmarks.

Further, included with loan fees are PPP loans for $2.8 million and $1.5 million for the nine months ended September 30, 2021 and 2020, respectively. PPP loan fees are recognized upon forgiveness.

The net interest margin remained the same at 3.22% for the nine months ended September 30, 2021 and 2020. The overall and individual yields for interest-bearing assets and interest-bearing liabilities both decreased in 2021 compared to 2020.

***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 and nine months ended September 30, 2021 compared to the same periods in 2020*

There was no provision for credit loss for the three months ended September 30, 2021 and 2020. Provision for credit loss for the nine months ended September 30, 2021, was a net reduction of $160 thousand compared to $3.3 million in provision expense for the same period in 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 1.27% at September 30, 2021 compared to 1.46% at September 30, 2020.

See “Allowance for Credit Losses” below for further discussion on how the ACL is calculated.

***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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Service fees | $ 856 | $ 777 | $ 2,648 | $ 2,236 |
| Gain (loss) on sale of securities available for sale, net | (70) | - | 179 | 423 |
| Gain on sale of loans held for sale, net | 532 | 612 | 1,519 | 840 |
| Loan settlement | 2,500 | - | 2,500 | - |
| Other non-interest income | 399 | 386 | 1,208 | 1,146 |
| Total non-interest income | $ 4,217 | $ 1,775 | $ 8,054 | $ 4,645 |

*Three months ended September 30, 2021 compared to the same period in 2020*

Non-interest income for the three months ended September 30, 2021 increased $2.4 million or 137.6%, compared to the three months ended September 30, 2020 primarily because of a default interest recovery of $2.5 million from a prior lending customer of the Bank. The loan was originated in 2008 and subsequently went through many iterations of credit collection. This payment reflects the final payment and settlement of lien judgments against the customer.

*Nine months ended September 30, 2021 compared to the same period in 2020*

Non-interest income for the nine months ended September 30, 2021 increased $3.4 million or 73.4%, compared to the nine months ended September 30, 2020. This increase was primarily driven by the default interest recovery recorded in the third quarter of 2021 as well as higher deposit service fees and gain on sales of loans due to increased activity in our SBA program.

***Non-Interest Expense***

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Salaries and employee benefits | $ 5,313 | $ 4,907 | $ 15,804 | $ 14,769 |
| Occupancy | 1,192 | 1,419 | 3,990 | 4,254 |
| Regulatory assessment and fees | 317 | 179 | 690 | 520 |
| Consulting and legal fees | 357 | 342 | 915 | 771 |
| Network and information technology services | 358 | 407 | 1,198 | 1,156 |
| Other operating | 1,470 | 1,124 | 3,761 | 3,300 |
| Total non-interest expense | $ 9,007 | $ 8,378 | $ 26,358 | $ 24,770 |

*Three months ended September 30, 2021 compared to the same period in 2020*

Non-interest expense for the three months ended September 30, 2021 increased $629 thousand or 7.5%, compared to the three months ended September 30, 2020. The increase is primarily due to an increase in salaries and employee benefit costs and other operating expenses in relation to the Bank becoming and continuing to function as a publicly traded company on the NASDAQ exchange.

*Nine months ended September 30, 2021 compared to the same period in 2020*

Non-interest expense for the nine months ended September 30, 2021 increased $1.6 million or 6.4%, compared to the same period in 2020. The increase is primarily due to an increase in salaries and employee benefit costs of $1.0 million or 7.0% for the nine months ended September 30, 2021, compared to the same period in 2020. The headcount of full-time equivalent employees increased from 178 at September 30, 2020 to 184 at September 30, 2021. Further, other operating expenses increased $0.5 million or 14.0% during the nine months ended September 30, 2021 compared to the same period in 2020 due to the Bank operating as a publicly traded company. 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 September 30, 2021 compared to the same period in 2020*

Income tax expense for the three months ended September 30, 2021 was $2.1 million, compared to $1.1 million for the three months ended September 30, 2020. The effective tax rate for the three months ended September 30, 2021 was 24.05% and for the three months ended September 30, 2020, the effective tax rate was 24.52%.

*Nine months ended September 30, 2021 compared to the same period in 2020*

Income tax expense for the nine months ended September 30, 2021 was $4.8 million, compared to $2.1 million for the nine months ended September 30, 2020. The effective tax rate for the nine months ended September 30, 2021 was 23.91% and for the nine months ended September 30, 2020 was 24.52%.

For a further discussion on income taxes, see Note 4 “Income Taxes” 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, except ratios):

| | As of | |
|---|---|---|
| | September 30, 2021 | December 31, 2020 |
| **Balance Sheet:** | | |
| Total assets | $ 1,755,011 | $ 1,501,742 |
| Total loans [(1)] | $ 1,176,412 | $ 1,038,504 |
| Total deposits | $ 1,484,589 | $ 1,273,402 |
| Total stockholders' equity | $ 201,918 | $ 171,001 |

| | Three Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| **Income Statement:** | | |
| Net interest income | $ 13,471 | $ 11,113 |
| Total non-interest income | $ 4,217 | $ 1,775 |
| Total non-interest expense | $ 9,007 | $ 8,378 |
| Net income | $ 6,593 | $ 3,404 |
| **Profitability:** | | |
| Efficiency ratio | 50.92% | 65.02% |
| Net interest margin [(2)] | 3.19% | 3.17% |

(1) Loan amounts include deferred fees/costs.

(2) Annualized.

Total assets at September 30, 2021, were $1.8 billion, an increase of $253.3 million, or 16.9%, over total assets of $1.5 billion at December 31, 2020. Total loans increased $137.9 million, or 13.3%, to $1.2 billion at September 30, 2021 compared to $1.0 billion at December 31, 2020. The increase in loans includes purchased loans totaling $93.7 million including deferred fees. Total deposits increased by $211.2 million, or 16.6%, to $1.5 billion at September 30, 2021 compared to 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 the Board. Such policy is reviewed at least annually or more frequently if deemed necessary, depending on market conditions and/or unexpected events. The investment portfolio composition is subject to change depending on the funding and liquidity needs of the 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 September 30, 2021, the investment portfolio consisted of available-for-sale ("AFS") and held-to-maturity ("HTM") debt securities. The book value of the AFS securities is 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 ("OTTI"). 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 OTTI are written down to fair value, with the write-down recorded as a realized loss under line item “Gain (loss) on sale of securities available for sale, net” of the Consolidated Statements of Operations. As of September 30, 2021, there are no securities which management has classified as O TTI. For further discussion of our analysis on impaired investment securities for OTTI, see Note 2 “Investment Securities” to the consolidated financial statements herein.

AFS and HTM investment securities increased $93.7 million or 28.0% to $428.0 million at September 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 September 30, 2021, corporate bond securities with a market value of $12.8 million were pledged to secure public deposits.

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

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| **Available-for-sale:** | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| U.S. Government Agency -SBA | $ - | $ - | $ 1,488 | $ 1,552 |
| U.S. Government Agency | - | - | 20,196 | 20,032 |
| Collateralized mortgage obligations | 130,253 | 128,868 | 104,426 | 104,650 |
| Mortgage-backed securities - Residential | 93,022 | 92,212 | 80,110 | 81,301 |
| Mortgage-backed securities - Commercial | 40,114 | 41,056 | 45,802 | 48,331 |
| Municipal securities | 25,184 | 24,736 | 24,230 | 24,211 |
| Bank subordinated debt securities | 24,004 | 25,568 | 24,004 | 24,630 |
| Corporate bonds | 15,068 | 15,731 | 27,733 | 29,615 |
| | $ 327,645 | $ 328,171 | $ 327,989 | $ 334,322 |
| **Held-to-maturity:** | | | | |
| U.S. Government Agency - SBA | $ 12,159 | $ 12,004 | $ - | $ - |
| U.S. Government Agency | 17,594 | 17,672 | - | - |
| Collateralized mortgage obligations | 29,045 | 28,857 | - | - |
| Mortgage-backed securities - Residential | 24,590 | 24,452 | - | - |
| Mortgage-backed securities - Commercial | 3,107 | 3,085 | - | - |
| Corporate bonds | 13,371 | 13,351 | - | - |
| | $ 99,866 | $ 99,421 | $ - | $ - |

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

| | Within 1 year | | After 1 year through 5 years | | After 5 years through 10 years | | After 10 years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Weighted Avg Yield | Amortized Cost | Weighted Avg Yield | Amortized Cost | Weighted Avg Yield | Amortized Cost | Weighted Avg Yield | Amortized Cost | Weighted Avg Yield |
| **Available-for-sale:** | | | | | | | | | | |
| U.S. Government Agency - SBA | $ - | 0.00% | $ - | 0.00% | $ - | 0.00% | $ - | 0.00% | $ - | 0.00% |
| U.S. Government Agency | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| Collateralized mortgage obligations | - | 0.00% | - | 0.00% | - | 0.00% | 130,253 | 1.14% | 130,253 | 1.14% |
| Mortgage-backed securities - Residential | - | 0.00% | - | 0.00% | - | 0.00% | 93,022 | 1.29% | 93,022 | 1.29% |
| Mortgage-backed securities - Commercial | - | 0.00% | - | 0.00% | - | 0.00% | 40,114 | 2.34% | 40,114 | 2.34% |
| Municipal securities | - | 0.00% | - | 0.00% | - | 0.00% | 25,184 | 1.73% | 25,184 | 1.73% |
| Bank subordinated debt securities | - | 0.00% | - | 0.00% | 23,004 | 5.22% | 1,000 | 6.13% | 24,004 | 5.26% |
| Corporate bonds | 1,999 | 3.62% | 8,971 | 4.00% | 4,098 | 2.53% | - | 0.00% | 15,068 | 3.55% |
| | $ 1,999 | | $ 8,971 | | $ 27,102 | | $ 289,573 | | $ 327,645 | 1.79% |
| **Held-to-maturity:** | | | | | | | | | | |
| U.S. Government Agency - SBA | $ - | 0.00% | $ - | 0.00% | $ 3,957 | 1.16% | $ 8,202 | 1.58% | $ 12,159 | 1.44% |
| U.S. Government Agency | - | 0.00% | 2,981 | 0.64% | 14,613 | 1.26% | - | 0.00% | 17,594 | 1.15% |
| Collateralized mortgage obligations | - | 0.00% | - | 0.00% | - | 0.00% | 29,045 | 1.43% | 29,045 | 1.43% |
| Mortgage-backed securities - Residential | - | 0.00% | - | 0.00% | 12,140 | 1.73% | 12,450 | 2.03% | 24,590 | 1.88% |
| Mortgage-backed securities - Commercial | - | 0.00% | - | 0.00% | 3,107 | 1.61% | - | 0.00% | 3,107 | 1.61% |
| Corporate bonds | 2,027 | 3.07% | 11,344 | 2.70% | - | 0.00% | - | 0.00% | 13,371 | 2.76% |
| | $ 2,027 | | $ 14,325 | | $ 33,817 | | $ 49,697 | | $ 99,866 | 1.68% |

***Loans***

Loans are the largest category of interest-earning assets on the Consolidated Balance Sheets, 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):

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Total | Percent of Total | Total | Percent of Total |
| Residential Real Estate | $ 201,124 | 17.1% | $ 232,754 | 22.4% |
| Commercial Real Estate | 693,469 | 58.8% | 606,425 | 58.3% |
| Commercial and Industrial | 137,486 | 11.7% | 157,330 | 15.1% |
| Foreign Banks | 58,839 | 5.0% | 38,999 | 3.7% |
| Consumer and Other | 87,515 | 7.4% | 5,507 | 0.5% |
| Total gross loans | 1,178,433 | 100.0% | 1,041,015 | 100.0% |
| Less: Unearned income | 2,021 | | 2,511 | |
| Total loans net of unearned income | 1,176,412 | | 1,038,504 | |
| Less: ACL | 14,900 | | 15,086 | |
| Total net loans | $ 1,161,512 | | $ 1,023,418 | |

Total gross loans increased by $137.4 million or 13.2% at September 30, 2021 compared to December 31, 2020. The most significant growth was in the commercial real estate and consumer and other loan pools, offset by a decline in the residential real estate and commercial and industrial loan pools. Consumer and other loans increased because of two yacht loan portfolios that were purchased for $93.7 million, including deferred fees, during the nine months ended September 30, 2021. Commercial and industrial loans decreased because of continuing PPP loan forgiveness as expected.

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, representing approximately 58.8% of the total gross loan portfolio as of September 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 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.

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 September 30, 2021 (in thousands):

| | Due in 1 year or less | | Due in 1 to 5 years | | Due after 5 years | | Total | |
|---|---|---|---|---|---|---|---|---|
| Residential Real Estate | $ | 21,821 | $ | 80,582 | $ | 98,721 | $ | 201,124 |
| Commercial Real Estate | | 171,693 | | 473,093 | | 48,683 | | 693,469 |
| Commercial and Industrial | | 93,757 | | 20,225 | | 23,504 | | 137,486 |
| Foreign Banks | | 58,839 | | - | | - | | 58,839 |
| Consumer and Other | | 5,776 | | - | | 81,739 | | 87,515 |
| Total gross loans | $ | 351,886 | $ | 573,900 | $ | 252,647 | $ | 1,178,433 |
| | | | | | | | | |
| **Interest rate sensitivity:** | | | | | | | | |
| Fixed interest rates | $ | 224,267 | $ | 91,634 | $ | 104,008 | $ | 419,909 |
| Floating or adjustable rates | | 127,619 | | 482,266 | | 148,639 | | 758,524 |
| Total gross loans | $ | 351,886 | $ | 573,900 | $ | 252,647 | $ | 1,178,433 |

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

As of September 30, 2021, approximately 64.4% of the loans have adjustable/variable rates and 35.6% 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. Internal credit risk grades are evaluated at least annually, or more frequently if deemed necessary. Internal credit risk ratings may change based on management's assessment of the results from the annual review, portfolio monitoring and other developments observed with borrowers.

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

| | |
|---|---|
| **Pass** | Loans indicate different levels of satisfactory financial condition and performance. |
| **Special Mention** | Loans 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. |
| **Substandard** | 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. |
| **Doubtful** | Loans have all the weaknesses inherent to those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full based on currently existing facts, conditions, and values, highly questionable and improbable. |
| **Loss** | Loans are considered uncollectible. |

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

| | September 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| Residential Real Estate | $ 197,711 | $ - | $ 3,413 | $ - | $ 201,124 |
| Commercial Real Estate | 693,046 | - | 423 | - | 693,469 |
| Commercial and Industrial | 137,298 | - | 188 | - | 137,486 |
| Foreign Banks | 58,839 | - | - | - | 58,839 |
| Consumer and Other | 87,270 | - | 245 | - | 87,515 |
| | $ 1,174,164 | $ - | $ 4,269 | $ - | $ 1,178,433 |

| | 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, except ratios):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Non-accrual loans, less non-accrual TDR loans | $ - | $ 303 |
| Non-accrual TDRs | 18 | 1,275 |
| Loans past due over 90 days and still accruing | - | - |
| Total non-performing loans | 18 | 1,578 |
| Other real estate owned | - | - |
| Total non-performing assets | $ 18 | $ 1,578 |
| **Asset quality ratios:** | | |
| ACL to total loans | 1.27% | 1.45% |
| ACL to non-performing loans | 82778% | 956% |
| Net charge-offs to average loans (1) | -0.02% | 0.02% |
| Non-performing loans to total loans | 0.00% | 0.15% |

(1) Annualized.

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 a commercial loan becomes due and unpaid for 90 days or more, the loan is placed on non-accrual status as of the date it becomes 90 days past due and remains in non-accrual status until it meets the criteria for restoration to accrual status. Residential loans, on the other hand, are placed on non-accrual status when the principal or interest becomes due and unpaid for 120 days or more and remains in non-accrual status until it meets the criteria for restoration to accrual status. Restoring a loan to accrual status is possible when the borrower resumes payment of all principal and interest payments for a period of six months and the 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):

| | September 30, 2021 | | |
|---|---|---|---|
| | Accruing | Non-Accruing | Total |
| Residential Real Estate | $ 7,867 | $ - | $ 7,867 |
| Commercial Real Estate | 705 | - | 705 |
| Commercial and Industrial | 151 | 18 | 169 |
| Consumer and Other | 245 | - | 245 |
| | $ 8,968 | $ 18 | $ 8,986 |

| | 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 $403 thousand and $453 thousand of specific allowance for TDR loans at September 30, 2021 and December 31, 2020, respectively. There was no commitment to lend additional funds to these TDR customers at September 30, 2021 and December 31, 2020.

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

There were no defaults on TDR loans for the year ended December 31, 2020 and for the three and nine months ended September 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 September 30, 2021, there was only one modified loan for $1.2 million that was past-due.

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***

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 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.

Additionally, qualitative adjustments are made to the ACL when, based on management’s judgment, there are factors impacting the allowance estimate not considered by the quantitative calculations.

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

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| Beginning balance for allowance for credit losses | $ | 14,848 | $ | 15,323 |
| **Charge-offs:** | | | | |
| Residential Real Estate | | - | | (224) |
| Commercial Real Estate | | - | | (30) |
| Commercial and Industrial | | - | | - |
| Foreign Banks | | - | | - |
| Consumer and Other | | (2) | | (1) |
| | | (2) | | (255) |
| **Recoveries:** | | | | |
| Residential Real Estate | | 48 | | 63 |
| Commercial Real Estate | | - | | - |
| Commercial and Industrial | | 3 | | 75 |
| Foreign Banks | | - | | - |
| Consumer and Other | | 3 | | 1 |
| | | 54 | | 139 |
| Net charge-offs | $ | 52 | $ | (116) |
| Provision for credit losses | $ | - | $ | - |
| Ending balance for allowance for credit losses | $ | 14,900 | $ | 15,207 |
| **Ratios:** | | | | |
| Allowance for credit losses to total loans | | 1.27% | | 1.46% |
| Net charge-offs to average loans (1) | | -0.02% | | 0.04% |

(1) Annualized.

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

| | September 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | | Total | Percent of Total | | Total | Percent of Total |
| Residential Real Estate | $ | 1,801 | 12.1% | $ | 3,408 | 22.6% |
| Commercial Real Estate | | 9,471 | 63.6% | | 9,453 | 62.7% |
| Commercial and Industrial | | 2,747 | 18.4% | | 1,689 | 11.2% |
| Foreign Banks | | 525 | 3.5% | | 348 | 2.3% |
| Consumer and Other | | 356 | 2.4% | | 188 | 1.2% |
| | $ | 14,900 | 100.0% | $ | 15,086 | 100.0% |

## Bank-Owned Life Insurance

At September 30, 2021, the combined cash surrender value of all Bank-owned life insurance ("BOLI") policies was $26.5 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, except ratios):

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid |
| Non-interest bearing demand deposits | $ 564,928 | 0.00% | $ 409,869 | 0.00% |
| Interest-bearing demand deposits | 55,621 | 0.11% | 47,905 | 0.31% |
| Saving and money market deposits | 627,654 | 0.32% | 483,754 | 0.54% |
| Time deposits | 229,055 | 0.53% | 281,372 | 1.59% |
| | $ 1,477,258 | 0.22% | $ 1,222,900 | 0.59% |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid |
| Non-interest bearing demand deposits | $ 528,035 | 0.00% | $ 375,055 | 0.00% |
| Interest-bearing demand deposits | 50,971 | 0.12% | 46,203 | 0.37% |
| Saving and money market deposits | 601,550 | 0.35% | 450,079 | 0.76% |
| Time deposits | 237,633 | 0.70% | 280,725 | 1.83% |
| | $ 1,418,189 | 0.27% | $ 1,152,062 | 0.76% |

Total average deposits for the three months ended September 30, 2021 were $1.5 billion, an increase of $254.4 million, or 20.8% over total average deposits of $1.2 billion for the same period in 2020. Our focus on demand deposits has resulted in an increase in average balances of $155.1 million, or 37.8%, in non-interest bearing demand deposits and an increase of $143.9 million, or 29.7%, in saving and money market deposits when comparing the average balances for the three months ended September 30, 2021 and 2020.

Total average deposits for the nine months ended September 30, 2021 were $1.4 billion, an increase of $266.1 million, or 23.1% over total average deposits of $1.2 billion for the same period in 2020. The deposit group that continues to grow the most is non-interest bearing demand deposits with an increase of $153.0 million, or 40.8%, when comparing the average balances for the nine months ended September 30, 2021 and 2020.

Total estimated uninsured deposits were $796.8 million and $606.1 million at September 30, 2021 and December 31, 2020, respectively. The uninsured deposits are estimated based on the FDIC deposit insurance limit of $250 thousand for all deposit accounts at the Bank per account holder.

The following table presents the maturities of time deposits as of September 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 | $ 29,734 | $ 63,628 | $ 13,576 | $ 1,414 | $ 108,352 |
| Time deposits over $250,000 | 28,821 | 61,923 | 10,953 | 20,055 | 121,752 |
| | $ 58,555 | $ 125,551 | $ 24,529 | $ 21,469 | $ 230,104 |

**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 September 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 September 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 September 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 a varying degree, such commitments involve elements of credit, market, and interest rate risk in excess of the amount recognized in the balance sheet. We use more conservative credit and collateral policies in making these credit commitments as we do for on-balance sheet items.

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

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| Commitments to grant loans and unfunded lines of credit | $ | 121,655 | $ | 107,553.00 |
| Standby and commercial letters of credit | | 2,857 | | 1,813 |
| Total | $ | 124,512 | $ | 109,366 |

**Asset and Liability Management ("ALM")**

The asset liability management committee of our Bank, or ALCO, consists 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, management, and mitigation strategies, ALM related policies, ALCO procedures and risk tolerances and appetite.

While some degree of IRR ("Internal Rate of Return") 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 rates scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes (flat and steeping) 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 September 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 to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

According to our model, as of September 30, 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 one, the estimated NIM will increase from 3.15% base case scenario to 3.20% 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 that 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.

Additionally, in the last couple of quarters we have been reducing our asset sensitivity by extending asset duration. This has reduced our NII volatility for the first and second year and has helped us to maintain the NII in accordance with ALCO expectations.

## 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 cybersecurity 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 September 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 September 30, 2021. The following table presents the capital ratios at September 30, 2021 and December 31, 2020 (in thousands, except ratios):

| | Actual | | Minimum Capital Requirements | | To be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| **September 30, 2021:** | | | | | | |
| Total risk-based capital | $ 180,170 | 15.10% | $ 95,445 | 8.00% | $ 119,306 | 10.00% |
| Tier 1 risk-based capital | $ 165,255 | 13.85% | $ 71,584 | 6.00% | $ 95,445 | 8.00% |
| Common equity tier 1 capital | $ 165,255 | 13.85% | $ 53,688 | 4.50% | $ 77,549 | 6.50% |
| Leverage ratio | $ 165,255 | 9.69% | $ 68,183 | 4.00% | $ 85,241 | 5.00% |
| **December 31, 2020:** | | | | | | |
| Total risk-based capital | $ 139,326 | 14.24% | $ 78,260 | 8.00% | $ 97,825 | 10.00% |
| Tier 1 risk-based capital | $ 127,061 | 12.99% | $ 58,695 | 6.00% | $ 78,260 | 8.00% |
| Common equity tier 1 capital | $ 94,984 | 9.71% | $ 44,021 | 4.50% | $ 63,587 | 6.50% |
| Leverage ratio | $ 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, higher inflationary pressure is expected, but nothing economically material.

### Reconciliation and Management Explanation of Non-GAAP Financial Measures

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

| | As of and for the three months ended | | | | |
|---|---|---|---|---|---|
| | 9/30/2021 | 6/30/2021 | 3/31/2021 | 12/31/2020 | 9/30/2020 |
| **Operating Net Income Available to Common Stockholders:** | | | | | |
| Net income (GAAP) | $ 6,593 | $ 4,053 | $ 4,781 | $ 4,239 | $ 3,404 |
| Less: Preferred dividends | 542 | 754 | 781 | 782 | 782 |
| Less: Exchange and redemption of preferred shares | 89,585 | - | - | - | - |
| Net income (loss) available to common stockholders (GAAP) | (83,534) | 3,299 | 4,000 | 3,457 | 2,622 |
| Add back: Exchange and redemption of preferred shares | 89,585 | - | - | - | - |
| Operating net income avail. to common stock (non-GAAP) [1] | $ 6,051 | $ 3,299 | $ 4,000 | $ 3,457 | $ 2,622 |
| ***Allocation of operating net income per common stock class:*** | | | | | |
| Class A common stock | $ 5,598 | $ 2,509 | $ 3,042 | $ 2,629 | $ 1,994 |
| Class B common stock | $ 453 | $ 790 | $ 958 | $ 828 | $ 628 |
| ***Weighted average shares outstanding:*** | | | | | |
| Class A common stock | | | | | |
| Basic | 15,121,460 | 3,889,469 | 3,889,469 | 3,887,512 | 3,887,469 |
| Diluted | 15,187,729 | 3,933,636 | 3,913,279 | 3,911,322 | 3,944,455 |
| Class B common stock | | | | | |
| Basic | 6,121,052 | 6,121,052 | 6,121,052 | 6,121,052 | 6,121,052 |
| Diluted | 6,121,052 | 6,121,052 | 6,121,052 | 6,121,052 | 6,121,052 |
| ***Diluted EPS:*** [1] [2] [3] | | | | | |
| Class A common stock | | | | | |
| Net income (loss) per diluted share (GAAP) | $ (5.11) | $ 0.64 | $ 0.78 | $ 0.67 | $ 0.51 |
| Add back: Exchange and redemption of preferred shares | 5.48 | - | - | - | - |
| Operating net income per diluted share (non-GAAP) | $ 0.37 | $ 0.64 | $ 0.78 | $ 0.67 | $ 0.51 |
| Class B common stock | | | | | |
| Net income (loss) per diluted share (GAAP) | $ (1.02) | $ 0.13 | $ 0.16 | $ 0.14 | $ 0.10 |
| Add back: Exchange and redemption of preferred shares | 1.09 | - | - | - | - |
| Operating net income per diluted share (non-GAAP) | $ 0.07 | $ 0.13 | $ 0.16 | $ 0.14 | $ 0.10 |

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

(2) For the quarter ended September 30, 2021, basic net loss per share is the same as diluted net loss per share as the inclusion of all potential common shares outstanding would have been antidilutive.

(3) In calculating net income (loss) per diluted share, the allocation of operating net income available to common stockholders was based on the weighted average shares outstanding per common share class to the total weighted average shares outstanding during each period. The operating net income allocation was calculated using the weighted average shares outstanding of Class B common stock on a as-converted basis.

## 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” or the “Bank”) 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 (the "Court"), (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. 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 was not permitted to engage in the Exchange Transactions under the terms of its Articles of Incorporation and asked the court to enjoin the Bank from effecting the Exchange Transactions. On August 25, 2021, the plaintiff shareholders filed a noticed of voluntary dismissal of the case without prejudice. On September 2, 2021, the Court issued an order of dismissal, dismissing the case without prejudice.

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.

### 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

None.

### Item 3 Mine Safety Disclosures

Not applicable.

### Item 4 Defaults Upon Senior Securities

None.

### 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: November 10, 2021

/s/ Luis de la Aguilera

**Luis de la Aguilera**
**President and Chief Executive Officer**

/s/ Robert Anderson

**Robert 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: November 10, 2021**

**Exhibit 31.2**

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

I, Robert Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 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/ Robert Anderson

**Robert Anderson**
**Chief Financial Officer**

**Date: November 10, 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 September 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: November 10, 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 September 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: November 10, 2021**