UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from _____to_____

Commission File Number: 001-41196

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

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

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of August 1, 2022, the registrant had 20,000,753 shares of Class A common stock outstanding.

USCB FINANCIAL HOLDINGS

FORM 10-Q
June 30, 2022

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PART I
Item 1. Financial Statements

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

	June 30, 2022	December 31, 2021
ASSETS:		
Cash and due from banks	$ 7,448	$ 6,477
Interest-bearing deposits in banks	75,824	39,751
Total cash and cash equivalents	83,272	46,228
Investment securities held to maturity (fair value $101,067 and $120,157, respectively)	116,671	122,658
Investment securities available for sale, at fair value	339,464	401,542
Federal Home Loan Bank stock, at cost	3,402	2,100
Loans held for investment, net of allowance of $15,786 and $15,057, respectively	1,356,947	1,175,024
Accrued interest receivable	5,991	5,975
Premises and equipment, net	5,088	5,278
Bank owned life insurance	42,249	41,720
Deferred tax asset, net	43,059	34,929
Lease right-of-use asset	13,574	14,185
Other assets	6,369	4,300
Total assets	$ 2,016,086	$ 1,853,939
LIABILITIES:		
Deposits:		
Demand	$ 653,708	$ $605,425
Money market and savings accounts	802,841	703,856
Interest-bearing checking accounts	63,416	55,878
Time deposits	218,755	225,220
Total deposits	1,738,720	1,590,379
Federal Home Loan Bank advances	66,000	36,000
Lease liability	13,574	14,185
Accrued interest and other liabilities	17,724	9,478
Total liabilities	1,836,018	1,650,042
Commitments and contingencies (See Notes 5 and 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock - Class C; $1.00 par value; $1,000 per share liquidation preference; 52,748 shares authorized; 0 and 0 issued and outstanding as of June 30, 2022 and December 31, 2021	-	-
Preferred stock - Class D; $1.00 par value; $5.00 per share liquidation preference; 12,309,480 shares authorized; 0 and 0 issued and outstanding as of June 30, 2022 and December 31, 2021	-	-
Preferred stock - Class E; $1.00 par value; $1,000 per share liquidation preference; 3,185,024 shares authorized; 0 and 0 issued and outstanding as of June 30, 2022 and December 31, 2021	-	-
Common stock - Class A Voting; $1.00 par value; 45,000,000 shares authorized; 20,000,753 and 19,991,753 issued and outstanding as of June 30, 2022 and December 31, 2021	20,001	19,992
Common stock - Class B Non-voting; $1.00 par value; 8,000,000 shares authorized; 0 and 0 issued and outstanding as of June 30, 2022 and December 31, 2021	-	-
Additional paid-in capital on common stock	311,024	310,666
Accumulated deficit	(114,096)	(124,245)
Accumulated other comprehensive loss	(36,861)	(2,516)
Total stockholders' equity	180,068	203,897
Total liabilities and stockholders' equity	$ 2,016,086	$ 1,853,939

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest income:				
Loans, including fees	$ 14,053	$ 11,538	$ 27,035	$ 23,406
Investment securities	2,510	1,968	4,839	3,812
Interest-bearing deposits in financial institutions	121	23	152	39
Total interest income	16,684	13,529	32,026	27,257
Interest expense:				
Interest-bearing deposits	17	15	33	29
Money market and savings accounts	615	523	1,166	1,071
Time deposits	271	379	530	933
Federal Home Loan Bank advances	139	138	276	275
Total interest expense	1,042	1,055	2,005	2,308
Net interest income before provision for credit losses	15,642	12,474	30,021	24,949
Provision for credit losses	705	-	705	(160)
Net interest income after provision for credit losses	14,937	12,474	29,316	25,109
Non-interest income:				
Service fees	1,083	903	1,983	1,792
Gain (loss) on sale of securities available for sale, net	(3)	187	18	249
Gain on sale of loans held for sale, net	22	23	356	987
Loan settlement	-	-	161	-
Other non-interest income	515	403	1,044	809
Total non-interest income	1,617	1,516	3,562	3,837
Non-interest expense:				
Salaries and employee benefits	5,913	5,213	11,788	10,491
Occupancy	1,251	1,411	2,521	2,798
Regulatory assessment and fees	226	195	439	373
Consulting and legal fees	398	373	915	558
Network and information technology services	448	332	835	840
Other operating expense	1,315	1,150	2,665	2,291
Total non-interest expense	9,551	8,674	19,163	17,351
Income before income tax expense	7,003	5,316	13,715	11,595
Income tax expense	1,708	1,263	3,566	2,761
Net income	5,295	4,053	10,149	8,834
Less: Preferred stock dividend	-	754	-	1,535
Net income available to common stockholders	$ 5,295	$ 3,299	$ 10,149	$ 7,299
Per share information:(1)				
Class A common stock				
Net income per share, basic	$ 0.26	$ 0.65	$ 0.51	$ 1.43
Net income per share, diluted	$ 0.26	$ 0.64	$ 0.50	$ 1.41
Class B common stock				
Net income per share, basic	$ -	$ 0.13	$ -	$ 0.29
Net income per share, diluted	$ -	$ 0.13	$ -	$ 0.29

(1) For further details on the allocation of net income available to common stockholders and per share information, see Note 9 "Earnings per Share".

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	$ 5,295	$ 4,053	$ 10,149	$ 8,834
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities	(23,253)	233	(45,898)	(5,837)
Amortization of net unrealized gains on securities transferred from available-for-sale to held-to-maturity	(61)	-	(126)	-
Reclassification adjustment for (gain) loss included in net income	3	(187)	(18)	(249)
Tax effect	5,908	(12)	11,697	1,491
Total other comprehensive income (loss), net of tax	(17,403)	34	(34,345)	(4,595)
Total comprehensive (loss) income	$ (12,108)	$ 4,087	$ (24,196)	$ 4,239

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

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

	Preferred Stock		Common Stock					
	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at April 1, 2022	-	$ -	20,000,753	$ 20,001	$ 310,887	$ (119,391)	$ (19,458)	$ 192,039
Net income	-	-	-	-	-	5,295	-	5,295
Other comprehensive loss	-	-	-	-	-	-	(17,403)	(17,403)
Stock-based compensation	-	-	-	-	137	-	-	137
Balance at June 30, 2022	-	$ -	20,000,753	$ 20,001	$ 311,024	$ (114,096)	$ (36,861)	$ 180,068
Balance at April 1, 2021	12,350,879	$ 32,077	10,010,521	$ 10,010	$ 177,808	$ (49,622)	$ 152	$ 170,425
Net income	-	-	-	-	-	4,053	-	4,053
Other comprehensive income	-	-	-	-	-	-	34	34
Dividends - preferred stock	-	-	-	-	-	(754)	-	(754)
Preferred stock repurchase	(7,500)	(7,461)	-	-	-	(39)	-	(7,500)
Stock-based compensation	-	-	-	-	44	-	-	44
Balance at June 30, 2021	12,343,379	$ 24,616	10,010,521	$ 10,010	$ 177,852	$ (46,362)	$ 186	$ 166,302

	Preferred Stock		Common Stock					
	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2022	-	$ -	19,991,753	$ 19,992	$ 310,666	$ (124,245)	$ (2,516)	$ 203,897
Net income	-	-	-	-	-	10,149	-	10,149
Other comprehensive loss	-	-	-	-	-	-	(34,345)	(34,345)
Exercise of stock options	-	-	9,000	9	93	-	-	102
Stock-based compensation	-	-	-	-	265	-	-	265
Balance at June 30, 2022	-	$ -	20,000,753	$ 20,001	$ 311,024	$ (114,096)	$ (36,861)	$ 180,068
Balance at January 1, 2021	12,350,879	$ 32,077	10,010,521	$ 10,010	$ 177,755	$ (53,622)	$ 4,781	$ 171,001
Net income	-	-	-	-	-	8,834	-	8,834
Other comprehensive loss	-	-	-	-	-	-	(4,595)	(4,595)
Dividends - preferred stock	-	-	-	-	-	(1,535)	-	(1,535)
Preferred stock repurchase	(7,500)	(7,461)	-	-	-	(39)	-	(7,500)
Stock-based compensation	-	-	-	-	97		-	97
Balance at June 30, 2021	12,343,379	$ 24,616	10,010,521	$ 10,010	$ 177,852	$ (46,362)	$ 186	$ 166,302

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

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash flows from operating activities:		
Net income	$ 10,149	$ 8,834
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	705	(160)
Depreciation and amortization	363	642
Amortization of premiums on securities, net	306	192
Accretion of deferred loan fees, net	(508)	(2,016)
Stock-based compensation	265	97
Gain on sale of available for sale securities	(18)	(249)
Gain on sale of loans held for sale	(356)	(987)
Increase in cash surrender value of bank owned life insurance	(529)	(335)
Decrease in deferred tax asset	3,567	2,760
Net change in operating assets and liabilities:		
Accrued interest receivable	(16)	(65)
Other assets	(2,069)	(863)
Accrued interest and other liabilities	8,246	6,001
Net cash provided by operating activities	20,105	13,851
Cash flows from investing activities:		
Purchase of investment securities held to maturity	(2,432)	-
Proceeds from maturities and pay-downs of investment securities held to maturity	8,173	-
Purchase of investment securities available for sale	(42,794)	(138,937)
Proceeds from maturities and pay-downs of investment securities available for sale	26,950	28,159
Proceeds from sales of investment securities available for sale	31,838	43,266
Net increase in loans held for investment	(115,607)	(68,609)
Purchase of loans held for investment	(70,175)	(44,868)
Additions to premises and equipment	(173)	(240)
Proceeds from the sale of loans held for sale	4,018	9,811
Proceeds from the redemption of Federal Home Loan Bank stock	-	611
Purchase of Federal Home Loan Bank stock	(1,302)	-
Net cash used in investment activities	(161,504)	(170,807)
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock, net	102	-
Dividends paid	-	(1,535)
Redemption of Preferred stock Class E	-	(7,500)
Net increase in deposits	148,341	165,374
Proceeds from Federal Home Loan Bank advances	30,000	-
Net cash provided by financing activities	178,443	156,339
Net increase in cash and cash equivalents	37,044	(617)
Cash and cash equivalents at beginning of period	46,228	47,734
Cash and cash equivalents at end of period	$ 83,272	$ 47,117
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,002	$ 2,359
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans held for investment to loans held for sale	$ 3,662	$ 8,824
Transfer of premises and equipment to assets held for sale	$ -	$ 656
Lease liability arising from obtaining right-of-use assets	$ 898	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

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

During the year ended December 31, 2021, the Bank completed an initial public offering ("IPO") and its Class A voting common shares began trading on the Nasdaq Stock Market in July 2021. In December 2021, the Bank exchanged all the outstanding shares of Class B non-voting common stock for shares of Class A voting common stock on a one to five exchange. Shortly thereafter, USCB Financial Holdings, Inc. acquired all issued and outstanding shares of Class A voting common stock of the Bank in connection with the reorganization of the Bank into the holding company form of structure. For further information on the IPO and the exchange and redemption of shares, see Note 8 "Stockholders' Equity".

The Company's Consolidated Financial Statements consist of USCB Financial Holdings, Inc. and U.S. Century Bank as of June 30, 2022 and December 31, 2021 and for the three and six month ended June 30, 2022 compared to only U.S. Century Bank as of June 30, 2021 and for the three and six months periods ended June 30, 2021.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Principles of Consolidation

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

Use of Estimates

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

Reclassifications

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

Recently Issued Accounting Standards

Issued and Not Yet Adopted

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326); Measurement of Credit Losses on Financial Instruments. This accounting standard update ("ASU" or "Update") on accounting for current expected credit losses on financial instruments ("CECL") will replace the current probable incurred loss impairment methodology under U.S. 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 applicable to the Company on a modified retrospective basis for interim and annual periods in fiscal years beginning after December 15,

2022. Early adoption is permitted for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company expects to adopt this ASU on January 1, 2023. The impact of adoption on the Company's financial statements will depend on the composition of the loan and investment securities portfolio as of January 1, 2023, general economic conditions, and other factors that are not known at this time. Although management is in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements, management does believe that this ASU will lead to significant changes in accounting policies and disclosures related to, and the methods used in estimating, the ACL. The Company has developed a detailed implementation plan through the date of adoption that includes the implementation of a software solution to assist with the CECL implementation process and is developing measurements in parallel with the current methodology. To date, the Company has initiated policy discussion with key stakeholders, completed a data gap analysis and retained the services of a third-party consulting firm to perform an independent model validation prior to adoption.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In January 2021, the FASB clarified the scope of this guidance with ASU 2021-01 which provides optional guidance for a limited period of time to ease the burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This ASU is effective from March 12, 2020 through December 31, 2022. The Company is evaluating the impact of this ASU and has not yet determined whether LIBOR transition and this ASU will have a material effect on our business operations and consolidated financial statements.

Trouble Debt Restructuring

In March 2022, the FASB issued ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This ASU eliminates the recognition and measurement guidance on troubled debt restructurings for creditors and aligns it with existing guidance to determine whether a loan modification results in a new loan or a continuation of an existing loan. The new guidance also requires enhanced disclosures about certain loan modifications by creditors when a borrower is experiencing financial difficulty. This ASU is effective in periods beginning after December 15, 2022, using either a prospective or modified retrospective transition approach. Early adoption is permitted for entities that have already adopted CECL. The Company is in the process of reviewing this ASU, as part of its CECL implementation efforts, to determine whether it would have a material impact on the Company's consolidated financial statements when adopted.

2. INVESTMENT SECURITIES

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

	June 30, 2022			
Available-for-sale:	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government Agency	$ 27,816	$ -	$ (1,966)	$ 25,850
U.S. Treasury	2,468	-	(31)	2,437
Collateralized mortgage obligations	155,340	-	(21,520)	133,820
Mortgage-backed securities - residential	111,708	-	(15,726)	95,982
Mortgage-backed securities - commercial	44,670	-	(4,549)	40,121
Municipal securities	25,124	-	(5,522)	19,602
Bank subordinated debt securities	16,503	53	(584)	15,972
Corporate bonds	6,062	-	(382)	5,680
	$ 389,691	$ 53	$ (50,280)	$ 339,464
Held-to-maturity:				
U.S. Government Agency	$ 34,100	$ -	$ (4,692)	$ 29,408
Collateralized mortgage obligations	40,806	-	(5,513)	35,293
Mortgage-backed securities - residential	27,478	-	(3,954)	23,524
Mortgage-backed securities - commercial	3,095	-	(403)	2,692
Corporate bonds	11,192	-	(1,042)	10,150
	$ 116,671	$ -	$ (15,604)	$ 101,067

	December 31, 2021			
Available-for-sale:	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government Agency	$ 10,564	$ 6	$ (50)	$ 10,520
Collateralized mortgage obligations	160,506	22	(3,699)	156,829
Mortgage-backed securities - residential	120,643	228	(2,029)	118,842
Mortgage-backed securities - commercial	49,905	820	(608)	50,117
Municipal securities	25,164	6	(894)	24,276
Bank subordinated debt securities	27,003	1,418	(13)	28,408
Corporate bonds	12,068	482	-	12,550
	$ 405,853	$ 2,982	$ (7,293)	$ 401,542
Held-to-maturity:				
U.S. Government Agency	$ 34,505	$ 14	$ (615)	$ 33,904
Collateralized mortgage obligations	44,820	-	(1,021)	43,799
Mortgage-backed securities - residential	26,920	-	(568)	26,352
Mortgage-backed securities - commercial	3,103	-	(90)	3,013
Corporate bonds	13,310	-	(221)	13,089
	$ 122,658	$ 14	$ (2,515)	$ 120,157

During the year ended December 31, 2021, a total of 28 investment securities with an amortized cost basis and fair value of $67.6 million and $68.7 million, respectively, were transferred from available-for-sale ("AFS") to held-to-maturity ("HTM"). These securities had a net unrealized gain of $1.1 million on the date of transfer, with no immediate impact to net income on the transfer date. The unrealized gain or loss of each security at the date of transfer was retained in accumulated other comprehensive income ("AOCI") and in the carrying value of the HTM securities. The net unrealized gains that were retained in AOCI are being amortized over the remaining life of the transferred securities. For the three months and the six months ended June 30, 2022, total amortization out of AOCI for net unrealized gains on securities transferred from AFS to HTM was $61 thousand and $126 thousand, respectively. Two of these transferred securities totaling $2.0 million matured during the second quarter of 2022.

Gains and losses on the sale of securities are recorded on the trade date and are determined on a specific identification basis. The following table presents the proceeds, realized gross gains and realized gross losses on sales and calls of AFS debt securities for the three and six months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Available-for-sale:	**2022**	**2021**	**2022**	**2021**
Proceeds from sale and call of securities	$ 17,280	$ 29,018	$ 31,838	$ 43,266
Gross gains	$ 58	$ 363	$ 216	$ 438
Gross losses	(61)	(176)	(198)	(189)
Net realized gain (loss)	$ (3)	$ 187	$ 18	$ 249

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

	Available-for-sale		Held-to-maturity	
June 30, 2022:	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due after one year through five years	$ 8,530	$ 8,117	$ 11,192	$ 10,150
Due after five years through ten years	17,503	16,822	-	-
Due after ten years	24,124	18,752	-	-
U.S. Government Agency	27,816	25,850	34,100	29,408
Collateralized mortgage obligations	155,340	133,820	40,806	35,293
Mortgage-backed securities - residential	111,708	95,982	27,478	23,524
Mortgage-backed securities - commercial	44,670	40,121	3,095	2,692
	$ 389,691	$ 339,464	$ 116,671	$ 101,067

At June 30, 2022, there were no securities held in the portfolio from any one issuer, in an amount greater than 10% of total stockholders' equity other than the United States Government and Government Agencies. All the collateralized mortgage obligations and mortgage-backed securities are issued by United States sponsored entities at June 30, 2022 and December 31, 2021.

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

	June 30, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government Agency	$ 40,053	$ (3,976)	$ 15,205	$ (2,787)	$ 55,258	$ (6,763)
U.S. Treasury	2,437	(31)	-	-	2,437	(31)
Collateralized mortgage obligations	100,414	(14,042)	68,699	(12,991)	169,113	(27,033)
Mortgage-backed securities - residential	77,724	(10,426)	41,782	(8,927)	119,506	(19,353)
Mortgage-backed securities - commercial	36,712	(3,830)	6,101	(1,057)	42,813	(4,887)
Municipal securities	6,050	(1,560)	13,552	(3,962)	19,602	(5,522)
Bank subordinated debt securities	11,919	(584)	-	-	11,919	(584)
Corporate bonds	15,830	(859)	-	-	15,830	(859)
	$ 291,139	$ (35,308)	$ 145,339	$ (29,724)	$ 436,478	$ (65,032)

	December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agency	$ 25,951	$ (254)	$ 15,477	$ (516)	$ 41,428	$ (770)
Collateralized mortgage obligations	155,668	(3,223)	38,459	(1,497)	194,127	(4,720)
Mortgage-backed securities - residential	88,772	(1,178)	37,373	(1,274)	126,145	(2,452)
Mortgage-backed securities - commercial	25,289	(318)	7,507	(309)	32,796	(627)
Municipal securities	11,292	(395)	11,978	(499)	23,270	(894)
Bank subordinated debt securities	4,487	(13)	-	-	4,487	(13)
	$ 311,459	$ (5,381)	$ 110,794	$ (4,095)	$ 422,253	$ (9,476)

As of June 30, 2022, the unrealized losses associated with $62.2 million of investment securities transferred from the AFS portfolio to the HTM portfolio represent unrealized losses since the date of purchase, independent of the impact associated with changes in the cost basis upon transfer between portfolios.

The Company 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 (i) the severity and duration of the impairment, (ii) the credit rating of the security including any downgrade, (iii) the intent to sell the security, or if it is more likely than not that it will be required to sell the security before recovery, (iv) whether there have been any payment defaults and (v) the underlying guarantor of the securities.

The company 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 Company does not intend to sell the investments before recovery of its amortized cost basis, which may be maturity, and it is more likely than not that the Company will not be required to sell the securities before maturity.

Pledged Securities

The Company maintains a master repurchase agreement with a public banking institution for up to $20.0 million fully guaranteed with investment securities upon withdrawal. Any amounts borrowed would be at a variable interest rate based on prevailing rates at the time funding is requested. As of June 30, 2022, the Company did not have any securities pledged under this agreement.

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

As of June 30, 2022, the Company had a total of $93.7 million in deposits under the public funds program and pledged to the state of Florida for these public funds were fourteen corporate bonds with an aggregate fair value of $23.6 million.

As of December 31, 2021, the Company had a total of $37.3 million in deposits under the public funds program and pledged to the state of Florida for these public funds were eleven corporate bonds with an aggregate fair value of $20.4 million.

3. LOANS

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

	June 30, 2022		December 31, 2021	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 203,662	14.8 %	$ 201,359	16.9 %
Commercial Real Estate	843,445	61.5 %	704,988	59.2 %
Commercial and Industrial	131,271	9.5 %	146,592	12.3 %
Foreign Banks	84,770	6.2 %	59,491	5.0 %
Consumer and Other	109,250	8.0 %	79,229	6.6 %
Total gross loans	1,372,398	100.0 %	1,191,659	100.0 %
Less: Deferred fees (cost)	(335)		1,578	
Total loans net of deferred fees (cost)	1,372,733		1,190,081	
Less: Allowance for credit losses	15,786		15,057	
Total net loans	$ 1,356,947		$ 1,175,024	

At June 30, 2022 and December 31, 2021, the Company had $159.9 million and $185.1 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 Company was a participant in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") loans. These loans were designed to provide a direct incentive for small businesses to keep their workers on payroll and the funds had to be used towards payroll cost, mortgage interest, rent, utilities and other costs related to COVID-19. These loans are forgivable under specific criteria as determined by the SBA. The Company had PPP loans of $13.5 million at June 30, 2022 and $42.4 million at December 31, 2021, which are categorized as commercial and industrial loans. These PPP loans had deferred loan fees of $149 thousand at June 30, 2022 and $1.5 million at December 31, 2021.

The Company recognized $1.5 million and $2.4 million in PPP loan fees and interest income during the six months ended June 30, 2022 and 2021, respectively, which is reported under loans, including fees, within the Consolidated Statements of Operations.

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

Changes in the allowance for credit losses for the three and six months ended June 30, 2022 and 2021 were as follows (in thousands):

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

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2021						
Beginning balance	$ 3,087	$ 9,320	$ 2,005	$ 407	$ 190	$ 15,009
Provision for credit losses	(322)	(568)	398	147	345	-
Recoveries	4	-	64	-	1	69
Charge-offs	(229)	-	-	-	(1)	(230)
Ending Balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848
Six Months Ended June 30, 2021						
Beginning balance	$ 3,408	$ 9,453	$ 1,689	$ 348	$ 188	$ 15,086
Provision for credit losses	(647)	(701)	627	206	355	(160)
Recoveries	8	-	151	-	2	161
Charge-offs	(229)	-	-	-	(10)	(239)
Ending Balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848

Allowance for credit losses and the outstanding balances in loans as of June 30, 2022 and December 31, 2021 are as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
June 30, 2022:						
Allowance for credit losses:						
Individually evaluated for impairment	$ 165	$ -	$ 50	$ -	$ 104	$ 319
Collectively evaluated for impairment	2,201	9,290	2,621	651	704	15,467
Balances, end of period	$ 2,366	$ 9,290	$ 2,671	$ 651	$ 808	$ 15,786
Loans:						
Individually evaluated for impairment	$ 7,307	$ 594	$ 99	$ -	$ 210	$ 8,210
Collectively evaluated for impairment	196,355	842,851	131,172	84,770	109,040	1,364,188
Balances, end of period	$ 203,662	$ 843,445	$ 131,271	$ 84,770	$ 109,250	$ 1,372,398
December 31, 2021:						
Allowance for credit losses:						
Individually evaluated for impairment	$ 178	$ -	$ 71	$ -	$ 111	$ 360
Collectively evaluated for impairment	2,320	8,758	2,704	457	458	14,697
Balances, end of period	$ 2,498	$ 8,758	$ 2,775	$ 457	$ 569	$ 15,057
Loans:						
Individually evaluated for impairment	$ 9,006	$ 696	$ 141	$ -	$ 224	$ 10,067
Collectively evaluated for impairment	192,353	704,292	146,451	59,491	79,005	1,181,592
Balances, end of period	$ 201,359	$ 704,988	$ 146,592	$ 59,491	$ 79,229	$ 1,191,659

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Credit Quality Indicators

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

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

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

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

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

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

Loss – Loans classified as loss are considered uncollectible.

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

	As of June 30, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate:					
Home equity line of credit ("HELOC") and other	$ 707	$ -	$ -	$ -	$ 707
1-4 family residential	144,937	-	-	-	144,937
Condo residential	58,018	-	-	-	58,018
	203,662	-	-	-	203,662
Commercial real estate:					
Land and construction	37,326	-	-	-	37,326
Multi-family residential	134,535	-	-	-	134,535
Condo commercial	48,103	-	406	-	48,509
Commercial property	621,789	1,197	-	-	622,986
Leasehold improvements	89	-	-	-	89
	841,842	1,197	406	-	843,445
Commercial and industrial: (1)					
Secured	111,293	-	462	-	111,755
Unsecured	19,516	-	-	-	19,516
	130,809	-	462	-	131,271
Foreign banks	84,770	-	-	-	84,770
Consumer and other loans	109,040	-	210	-	109,250
Total	$ 1,370,123	$ 1,197	$ 1,078	$ -	$ 1,372,398

(1) All outstanding PPP loans were internally graded pass.

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	As of December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate:					
Home equity line of credit ("HELOC") and other	$ 701	$ -	$ -	$ -	$ 701
1-4 family residential	130,840	-	4,581	-	135,421
Condo residential	65,237	-	-	-	65,237
	196,778	-	4,581	-	201,359
Commercial real estate:					
Land and construction	24,581	-	-	-	24,581
Multi-family residential	127,489	-	-	-	127,489
Condo commercial	41,983	-	417	-	42,400
Commercial property	509,189	1,222	-	-	510,411
Leasehold improvements	107	-	-	-	107
	703,349	1,222	417	-	704,988
Commercial and industrial: (1)					
Secured	97,605	-	536	-	98,141
Unsecured	48,434	-	17	-	48,451
	146,039	-	553	-	146,592
Foreign banks	59,491	-	-	-	59,491
Consumer and other loans	79,005	-	224	-	79,229
Total	$ 1,184,662	$ 1,222	$ 5,775	$ -	$ 1,191,659

(1) All outstanding PPP loans were internally graded pass.

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Loan Aging

The Company also considers the performance of loans in grading and in evaluating the credit quality of the loan portfolio. The Company analyzes credit quality and loan grades based on payment performance and the aging status of the loan. The following tables include an aging analysis of accruing loans and total non-accruing loans as of June 30, 2022 and December 31, 2021 (in thousands):

	Accruing					
As of June 30, 2022:	**Current**	**Past Due 30-89 Days**	**Past Due 90 Days or > and Still Accruing**	**Total Accruing**	**Non-Accrual**	**Total Loans**
Residential real estate:						
Home equity line of credit and other	$ 707	$ -	$ -	$ 707	$ -	$ 707
1-4 family residential	144,937	-	-	144,937	-	144,937
Condo residential	57,338	680	-	58,018	-	58,018
	202,982	680	-	203,662	-	203,662
Commercial real estate:		-				
Land and construction	37,326	-	-	37,326	-	37,326
Multi-family residential	134,535	-	-	134,535	-	134,535
Condo commercial	48,509	-	-	48,509	-	48,509
Commercial property	622,986	-	-	622,986	-	622,986
Leasehold improvements	89	-	-	89	-	89
	843,445	-	-	843,445	-	843,445
Commercial and industrial:		-				
Secured	111,556	199	-	111,755	-	111,755
Unsecured	19,516	-	-	19,516	-	19,516
	131,072	199	-	131,271	-	131,271
		-				
Foreign banks	84,770	-	-	84,770	-	84,770
Consumer and other	109,250	-	-	109,250	-	109,250
		-				
Total	$ 1,371,519	$ 879	$ -	$ 1,372,398	$ -	$ 1,372,398

As of December 31, 2021:	Accruing Current	Past Due 30-89 Days	Past Due 90 Days or > and Still Accruing	Total Accruing	Non-Accrual	Total Loans
Residential real estate:						
Home equity line of credit and other	$ 701	$ -	$ -	$ 701	$ -	$ 701
1-4 family residential	133,942	289	-	134,231	1,190	135,421
Condo residential	64,243	994	-	65,237	-	65,237
	198,886	1,283	-	200,169	1,190	201,359
Commercial real estate:						
Land and construction	24,581	-	-	24,581	-	24,581
Multi-family residential	127,053	436	-	127,489	-	127,489
Condo commercial	42,400	-	-	42,400	-	42,400
Commercial property	510,411	-	-	510,411	-	510,411
Leasehold improvements	107	-	-	107	-	107
	704,552	436	-	704,988	-	704,988
Commercial and industrial:						
Secured	98,141	-	-	98,141	-	98,141
Unsecured	48,041	410	-	48,451	-	48,451
	146,182	410	-	146,592	-	146,592
Foreign banks	59,491	-	-	59,491	-	59,491
Consumer and other	78,969	260	-	79,229	-	79,229
Total	$ 1,188,080	$ 2,389	$ -	$ 1,190,469	$ 1,190	$ 1,191,659

There was no interest income recognized attributable to nonaccrual loans outstanding during June 30, 2022 and 2021. Interest income on these loans for the three months ended June 30, 2022 and 2021, would have been approximately $0 and $1 thousand, respectively, had these loans performed in accordance with their original terms.

Impaired Loans

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

	June 30, 2022			December 31, 2021		
	Unpaid Principal Balance	Net Investment Balance	Valuation Allowance	Unpaid Principal Balance	Net Investment Balance	Valuation Allowance
Impaired Loans with No Specific Allowance:						
Residential real estate	$ 3,598	$ 3,592	$ -	$ 5,021	$ 5,035	$ -
Commercial real estate	593	593	-	696	695	-
	4,191	4,185	-	5,717	5,730	-
Impaired Loans with Specific Allowance:						
Residential real estate	3,710	3,677	165	3,985	3,950	178
Commercial and industrial	99	99	50	141	141	71
Consumer and other	210	210	104	224	224	111
	4,019	3,986	319	4,350	4,315	360
Total	$ 8,210	$ 8,171	$ 319	$ 10,067	$ 10,045	$ 360

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 dates indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Residential real estate	$ 7,332	$ 8,321	$ 7,890	$ 9,027
Commercial real estate	599	718	631	723
Commercial and industrial	115	188	124	192
Consumer and other	214	262	217	268
Total	$ 8,260	$ 9,489	$ 8,862	$ 10,210

Interest income recognized on impaired loans for the three months ended June 30, 2022 and 2021 was $90 thousand and $105 thousand, respectively.

Interest income recognized on impaired loans for the six months ended June 30, 2022 and 2021 was $181 thousand and $214 thousand, respectively.

Troubled Debt Restructuring

A troubled debt restructuring ("TDR") occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. Modifications to loans can be made for rate, term, payment, conversion of loan to interest only for a limited period of time or a combination to include more than one type of modification.

The following table presents performing and non-performing TDRs at the dates indicated (in thousands):

	June 30, 2022			December 31, 2021		
	Accrual Status	Non-Accrual Status	Total TDRs	Accrual Status	Non-Accrual Status	Total TDRs
Residential real estate	$ 7,307	$ -	$ 7,307	$ 7,815	$ -	$ 7,815
Commercial real estate	594	-	594	696	-	696
Commercial and industrial	99	-	99	141	-	141
Consumer and other	210	-	210	224	-	224
Total	$ 8,210	$ -	$ 8,210	$ 8,876	$ -	$ 8,876

The Company had allocated $319 thousand and $360 thousand of specific allowance for TDR loans at June 30, 2022 and December 31, 2021, respectively. There were no charge-offs on TDR loans during the three and six months ended June 30, 2022 and 2021. There were no commitments outstanding to lend additional funds to any of these TDR customers as of June 30, 2022.

During the quarter ended June 30, 2022 and 2021, there were no defaults on loans which were modified as a TDR within the prior 12 months. The Company also did not have any new TDR loans for the three and six months ended June 30, 2022 and 2021.

4. INCOME TAXES

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Current:		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred:		
Federal	2,778	2,268
State	788	493
Total deferred	3,566	2,761
Total tax expense	$ 3,566	$ 2,761

The actual income tax expense for the six months ended June 30, 2022 and 2021 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 21% for 2022 and 2021 to income before provision for income taxes) as follows (in thousands):

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Federal taxes at statutory rate	$ 2,880	$ 2,435
State income taxes, net of federal tax benefit	596	406
Bank owned life insurance	(134)	(82)
Other, net	224	2
Total tax expense	$ 3,566	$ 2,761

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

	June 30, 2022	December 31, 2021
Deferred tax assets:		
Net operating loss	$ 25,768	$ 28,819
Allowance for credit losses	4,001	3,816
Lease liability	3,440	3,595
Unrealized losses on available for sale securities	12,514	817
Deferred loan fees	-	400
Depreciable property	134	361
Stock option compensation	298	241
Accruals	447	600
Other, net	144	2
Deferred tax assets:	46,746	38,651
Deferred tax liability:		
Deferred loan cost	(85)	-
Lease right of use asset	(3,440)	(3,595)
Deferred expenses	(162)	(127)
Deferred tax liability	(3,687)	(3,722)
Net deferred tax assets	$ 43,059	$ 34,929

The Company has approximately $97.8 million of federal and $120.5 million of state net operating loss carryforwards expiring in various amounts between 2031 and 2036 and are limited to future taxable earnings of the Company.

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

The major tax jurisdictions where the Company files income tax returns are the U.S. federal jurisdiction and the state of Florida. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2018.

For the three months ended June 30, 2022 and 2021, the Company did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. Additionally, no interest or penalties were recorded as a result of tax uncertainties.

5. OFF-BALANCE SHEET ARRANGEMENTS

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

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

A summary of the amounts of the Company's financial instruments with off-balance sheet risk are shown below at June 30, 2022 and December 31, 2021 (in thousands):

	June 30, 2022	December 31, 2021
Commitments to grant loans and unfunded lines of credit	$ 142,498	$ 134,877
Standby and commercial letters of credit	3,843	6,420
	$ 146,341	$ 141,297

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

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

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

6. DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk 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 Company enters into interest rate swaps with its loan customers. The Company had 17 and 18 interest rate swaps with loan customers with an aggregate notional amount of $36.3 million and $39.2 million at June 30, 2022 and December 31, 2021, respectively. These interest rate swaps mature between 2025 and 2051. The Company entered into corresponding and offsetting derivatives with third parties. The fair value of liability on these derivatives requires the Company to provide the counterparty with funds to be held as collateral which the Company reports as other assets under the Consolidated Balance Sheets. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

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

	Notional Amount	Collateral Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
June 30, 2022:					
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	$ 36,315	$ 1,260	Other assets/Other liabilities	$ 3,831	$ 3,831
December 31, 2021:					
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	$ 39,156	$ 1,260	Other assets/Other liabilities	$ 1,434	$ 1,434

7. FAIR VALUE MEASUREMENTS

Determination of Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

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

Items Measured at Fair Value on a Recurring Basis

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

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

The following table represents the Company's assets measured at fair value on a recurring basis at June 30, 2022 and December 31, 2021 for each of the fair value hierarchy levels (in thousands):

	June 30, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities available for sale:								
U.S. Government Agency	$ -	$ 25,850	$ -	$ 25,850	$ -	$ 10,520	$ -	$ 10,520
U.S. Treasury	2,437	-	-	2,437	-	-	-	-
Collateralized mortgage obligations	-	133,820	-	133,820	-	156,829	-	156,829
Mortgage-backed securities - residential	-	95,982	-	95,982	-	118,842	-	118,842
Mortgage-backed securities - commercial	-	40,121	-	40,121	-	50,117	-	50,117
Municipal Securities	-	19,602	-	19,602	-	24,276	-	24,276
Bank subordinated debt securities	-	15,972	-	15,972	-	28,408	-	28,408
Corporate bonds	-	5,680	-	5,680	-	12,550	-	12,550
Total	2,437	337,027	-	339,464	-	401,542	-	401,542
Derivative assets	-	3,831	-	3,831	-	1,434	-	1,434
Total assets at fair value	$ 2,437	$ 340,858	$ -	$ 343,295	$ -	$ 402,976	$ -	$ 402,976
Derivative liabilities	$ -	$ 3,831	$ -	$ 3,831	$ -	$ 1,434	$ -	$ 1,434
Total liabilities at fair value	$ -	$ 3,831	$ -	$ 3,831	$ -	$ 1,434	$ -	$ 1,434

Items Measured at Fair Value on a Non-recurring Basis

Impaired Loans: At June 30, 2022 and December 31, 2021, in accordance with provisions of the loan impairment guidance, individual loans with a carrying amount of approximately $4.0 million and $4.4 million, respectively, were written down to their fair value of approximately $3.7 million and $4.0 million, respectively, resulting in an impairment charge of $319 thousand and $360 thousand, respectively, which was included in the allowance for credit losses at June 30, 2022 and December 31, 2021, respectively. 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 is valued at the lesser of the third-party appraisals less management's estimate of the costs to sell or the carrying cost of the other real estate owned. Appraisals generally use the market approach valuation technique and use market observable data to formulate an opinion of the fair value of the properties. However, the appraiser uses professional judgment in determining the fair value of the property and the Company may also adjust the value for changes in market conditions subsequent to the valuation date when current appraisals are not available. As a consequence of the carrying cost or the third-party appraisal and adjustments therein, the fair values of the properties are considered a Level 3 valuation.

The following table represents the Company's assets measured at fair value on a non-recurring basis at June 30, 2022 and December 31, 2021 for each of the fair value hierarchy levels (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2022:				
Impaired loans	$ -	$ -	$ 3,700	$ 3,700
December 31, 2021:				
Impaired loans	$ -	$ -	$ 3,990	$ 3,990

The following table presents quantified information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis at June 30, 2022 and December 31, 2021 (in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)
June 30, 2022:			
Residential real estate	$ 3,546	Sales comparison approach	Adj. for differences between comparable sales
Commercial and industrial	48	Discounted cash flow	Adj. for differences in net operating income expectations
Consumer and other loans	106	Discounted cash flow	Adj. for differences in net operating income expectations
Total impaired loans	$ 3,700		
December 31, 2021:			
Residential real estate	$ 3,807	Sales comparison approach	Adj. for differences between comparable sales
Commercial and industrial	70	Discounted cash flow	Adj. for differences in net operating income expectations
Consumer and other loans	113	Discounted cash flow	Adj. for differences in net operating income expectations
Total impaired loans	$ 3,990		

There were no financial liabilities measured at fair value on a non-recurring basis at June 30, 2022 and December 31, 2021.

Items Not Measured at Fair Value

The following table presents the carrying amounts and estimated fair values of financial instruments not carried at fair value as of June 30, 2022 and December 31, 2021 (in thousands):

	Carrying Amount	Fair Value Hierarchy Level 1	Level 2	Level 3	Fair Value Amount
June 30, 2022:					
Financial Assets:					
Cash and due from banks	$ 7,448	$ 7,448	$ -	$ -	$ 7,448
Interest-bearing deposits in banks	$ 75,824	$ 75,824	$ -	$ -	$ 75,824
Investment securities held to maturity	$ 116,671	$ -	$ 101,067	$ -	$ 101,067
Loans held for investment, net	$ 1,356,947	$ -	$ -	$ 1,339,283	$ 1,339,283
Accrued interest receivable	$ 5,991	$ -	$ 1,246	$ 4,745	$ 5,991
Financial Liabilities:					
Demand deposits	$ 653,708	$ 653,708	$ -	$ -	$ 653,708
Money market and savings accounts	$ 802,841	$ 802,841	$ -	$ -	$ 802,841
Interest-bearing checking accounts	$ 63,416	$ 63,416	$ -	$ -	$ 63,416
Time deposits	$ 218,755	$ -	$ -	$ 214,737	$ 214,737
FHLB advances	$ 66,000	$ -	$ 64,985	$ -	$ 64,985
Accrued interest payable	$ 99	$ -	$ 50	$ 49	$ 99
December 31, 2021:					
Financial Assets:					
Cash and due from banks	$ 6,477	$ 6,477	$ -	$ -	$ 6,477
Interest-bearing deposits in banks	$ 39,751	$ 39,751	$ -	$ -	$ 39,751
Investment securities held to maturity	$ 122,658	$ -	$ 120,157	$ -	$ 120,157
Loans held for investment, net	$ 1,175,024	$ -	$ -	$ 1,189,191	$ 1,189,191
Accrued interest receivable	$ 5,975	$ -	$ 1,222	$ 4,753	$ 5,975
Financial Liabilities:					
Demand deposits	$ 605,425	$ 605,425	$ -	$ -	$ 605,425
Money market and savings accounts	$ 703,856	$ 703,856	$ -	$ -	$ 703,856
Interest-bearing checking accounts	$ 55,878	$ 55,878	$ -	$ -	$ 55,878
Time deposits	$ 225,200	$ -	$ -	$ 224,688	$ 224,688
FHLB advances	$ 36,000	$ -	$ 36,479	$ -	$ 36,479
Accrued interest payable	$ 96	$ -	$ 50	$ 46	$ 96

8. 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.

In June 2021, the Bank effected a 1 for 5 reverse stock split of all the Class A common stock $1.00 par value. 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 for this 1 for 5 reverse stock split for all periods in 2021. The Class B common stock was not adjusted but if sold or exchanged would be converted at the 1 for 5 reverse stock split of 1 share of Class A common stock for 5 shares of Class B common stock. Any dividends declared by the Board of Directors (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.

In July 2021, the Bank completed the 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.

In December 2021, the Bank entered into agreements with the Class B shareholders to exchange all outstanding Class B common stock for Class A common stock at a ratio of 5 to 1. As a result, a total of 6,121,052 shares of Class B common stock were exchanged for 1,224,212 shares of Class A common stock.

In December 2021, USCB Financial Holdings, Inc. (the “Company”) acquired all the issued and outstanding shares of the Class A voting common stock of U.S. Century Bank (the “Bank”), which are the only issued and outstanding shares of the Bank’s capital stock, in a share exchange (the “Reorganization”) effected under the Florida Business Corporation Act. Each of the outstanding shares of the Bank’s common stock, par value $1.00 per share, formerly held by its shareholders was converted into and exchanged for one newly issued share of the Company’s common stock, par value $1.00 per share, and the Bank became the Company’s wholly owned subsidiary.

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

Preferred Stock

In April 2021, the Board 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 of $103 thousand. All Class E preferred stock shareholders approved the repurchase which the Bank completed in April 2021.

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 preferred stock exchange transaction was based upon the IPO price for shares of Class A common stock.

During the year ended December 31, 2021, 47,473 shares of Class C preferred stock and 11,061,552 shares of Class D preferred stock converted into an aggregate of 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 their liquidation value for $11.4 million.

The fair value of consideration on the preferred stock 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 June 30, 2022 and December 31, 2021, there were no preferred shares and no outstanding dividends to be paid these on.

Dividends

The following dividend amounts were paid on the preferred shares for the three and six months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Preferred stock - Class C: Non-voting, Non-cumulative, Perpetual: $1.00 par value; $1,000 per share liquidation preference; annual dividend rate of 4% of liquidation preference paid quarterly. Quarterly dividend of $10.00 per share.	$ -	$ 528	$ -	$ 1,055
Preferred stock - Class D: Non-voting, Non-cumulative, Perpetual: $1.00 par value; $5.00 per share liquidation preference; annual dividend rate of 4% of par value paid quarterly. Quarterly dividend of $0.01 per share.	-	123	-	246
Preferred stock - Class E: Non-voting, Partially Cumulative, Perpetual: $1.00 par value; $1,000 per share liquidation preference; annual dividend rate of 7% of liquidation preference paid quarterly. Quarterly dividend of $17.50 per share.	-	103	-	234
Total dividends paid	$ -	$ 754	$ -	$ 1,535

Declaration of dividends by the Board is required before dividend payments are made. No dividends were approved by the Board for the common stock classes for the three months ended June 30, 2022 and 2021. Additionally, there were no dividends declared and unpaid as of June 30, 2022 and 2021.

The Company and the Bank exceeded all regulatory capital requirements and remained significantly above “well-capitalized” guidelines. At June 30, 2022, total risk-based capital ratio for the Company and the Bank were 13.74% and 13.67%, respectively.

9. EARNINGS PER SHARE

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

To calculate EPS for the three and six months ended June 30, 2022, net income available to common stockholders was not allocated between Class A and Class B common stock since there were no issued and outstanding shares of Class B common stock as of June 30, 2022.

To calculate EPS for the three and six months ended June 30, 2021, 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 Company’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.

The following table reflects the calculation of net income available to common stockholders for three and six months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net Income	$ 5,295	$ 4,053	$ 10,149	$ 8,834
Less: Preferred stock dividends	-	754	-	1,535
Net income available to common stockholders	$ 5,295	$ 3,299	$ 10,149	$ 7,299

The following table reflects the calculation of basic and diluted earnings per common share class for the three and six months ended June 30, 2022 and 2021 (in thousands, except per share amounts):

	Three Months Ended June 30,			
	2022		2021	
	Class A	Class B	Class A	Class B (1)
Basic EPS				
Numerator:				
Net income available to common shares before allocation	$ 5,295	$ -	$ 3,299	$ 3,299
Multiply: % allocated on weighted avg. shares outstanding	100.0%	-	76.0%	24.0%
Net income available to common shares after allocation	$ 5,295	$ -	$ 2,509	$ 790
Denominator:				
Weighted average shares outstanding	20,000,753	-	3,889,469	6,121,052
Earnings per share, basic	$ 0.26	$ -	$ 0.65	$ 0.13
Diluted EPS				
Numerator:				
Net income available to common shares before allocation	$ 5,295	$ -	$ 3,299	$ 3,299
Multiply: % allocated on weighted avg. shares outstanding	100.0%	-	76.0%	24.0%
Net income available to common shares after allocation	$ 5,295	$ -	$ 2,509	$ 790
Denominator:				
Weighted average shares outstanding for basic EPS	20,000,753	-	3,889,469	6,121,052
Add: Dilutive effects of assumed exercises of stock options	170,508	-	44,167	-
Weighted avg. shares including dilutive potential common shares	20,171,261	-	3,933,636	6,121,052
Earnings per share, diluted	$ 0.26	$ -	$ 0.64	$ 0.13
Anti-dilutive stock options excluded from diluted EPS	15,000	-	103,666	-

(1) Net income available to common shares between Class A and Class B common stock was allocated based on the weighted average number of shares outstanding. The allocation also assumes that Class B shares had converted to Class A shares which is equivalent to 0.20 per share of Class B or 1,224,212 shares of Class A shares.

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	Six Months Ended June 30,			
	2022		2021	
	Class A	Class B	Class A	Class B (1)
Basic EPS				
Numerator:				
Net income available to common shares before allocation	$ 10,149	$ -	$ 7,299	$ 7,299
Multiply: % allocated on weighted avg. shares outstanding	100.0%	-	76.1%	23.9%
Net income available to common shares after allocation	$ 10,149	$ -	$ 5,551	$ 1,748
Denominator:				
Weighted average shares outstanding	19,997,869	-	3,889,469	6,121,052
Earnings per share, basic	$ 0.51	$ -	$ 1.43	$ 0.29
Diluted EPS				
Numerator:				
Net income available to common shares before allocation	$ 10,149	$ -	$ 7,299	$ 7,299
Multiply: % allocated on weighted avg. shares outstanding	100.0%	-	76.1%	23.9%
Net income available to common shares after allocation	$ 10,149	$ -	$ 5,551	$ 1,748
Denominator:				
Weighted average shares outstanding for basic EPS	19,997,869	-	3,889,469	6,121,052
Add: Dilutive effects of assumed exercises of stock options	195,049	-	44,167	-
Weighted avg. shares including dilutive potential common shares	20,192,918	-	3,933,636	6,121,052
Earnings per share, diluted	$ 0.50	$ -	$ 1.41	$ 0.29
Anti-dilutive stock options excluded from diluted EPS	15,000	-	103,666	-

(1) Net income available to common shares between Class A and Class B common stock was allocated based on the weighted average number of shares outstanding. The allocation also assumes that Class B shares had converted to Class A shares which is equivalent to 0.20 per share of Class B or 1,224,212 shares of Class A shares.

See Note 8 “Stockholders’ Equity” for further discussion of the stock split.

10. LOSS CONTINGENCIES

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

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

The following discussion and analysis are designed to provide a better understanding of the consolidated financial condition and results of operations of the Company and the Bank, its wholly owned subsidiary, for the quarter and six months ended June 30, 2022. This discussion and analysis are best read in conjunction with the consolidated financial statements and related footnotes included in this Form 10-Q and in the Annual Report filed on the Form 10-K ("2021 form 10-K") filed with the Security and Exchange Commission ("SEC") for the year ended December 31, 2021.

This discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections entitled "Forward-Looking Statements" and Item 1A "Risk Factors" below and in the 2021 Form 10-K filed with the SEC which is available at the SEC's website www.sec.gov.

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

Forward-Looking Statements

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

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 continuation of 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 the forthcoming implementation of the Current Expected Credit Losses ("CECL") standard;
- the effects of our lack of a diversified loan portfolio and concentration in the South Florida market, including the risks of geographic, depositor, and industry concentrations, including our concentration in loans secured by real estate;
- the concentration of ownership of our Class A common stock;
- fluctuations in the price 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 the pricing of our products and services as well as our interest rate margin;
- the effectiveness of our risk management strategies, including operational risks, including, but not limited to, client, employee, or third-party fraud and security breaches; and
- other risks described in this Form 10-Q and other filings we make with the SEC.

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations. Therefore, you are cautioned not to place undue reliance on any forward-looking statements. Further, forward-looking statements included in this Form 10-Q are made only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the 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 described in the reports the Company filed or will file with the SEC and, for periods prior to the completion of the bank holding company reorganization in December 2021, U.S. Century Bank ("Bank") filed with the Federal Depository Institution Corporation ("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 'Reconciliation and Management Explanation of Non-GAAP Financial Measures' included in this Form 10-Q.

Overview

The Company, the holding company of the Bank, reported net income of $5.3 million or $0.26 per diluted share for class A common stock for the three months ended June 30, 2022, compared with net income of $4.1 million or $0.64 and $0.13 per diluted share for Class A and Class B common stock, respectively, for the same period in 2021. In December 2021, the Company agreed to exchange all the outstanding shares of Class B common stock for Class A common stock at a ratio of 5 to 1. As of June 30, 2022 and December 31, 2021, the Company's only class of securities issued and outstanding was Class A common stock.

During the first quarter in 2022, the Board of Directors (the "Board") approved a share repurchase program of up to 750,000 shares of Class A common stock. Under the repurchase program, the Company may purchase shares of Class A common stock on a discretionary basis from time to time. As of June 30, 2022, the Company had not repurchased any shares.

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, regulatory capital ratios, and any significant event or transaction.

Unless otherwise stated, all comparisons in the bullet points below are calculated for the quarter ended June 30, 2022 compared to the quarter ended June 30, 2021 and annualized where appropriate:

- Net interest income increased $3.2 million or 25.4% to $15.6 million from $12.5 million for the quarter ended June 30, 2021.
- Net interest margin ("NIM") increased to 3.37% from 3.14% for the second quarter of 2021.
- Total assets exceeded $2.0 billion, an increase of $161.1 million or 8.7%, compared to December 31, 2021.
- Total loans grew to $1.4 billion, an increase of $182.7 million or 15.3%, compared to December 31, 2021.
- Total deposits increased $148.3 million or 9.3% to $1.7 billion from $1.6 billion at December 31, 2021.
- Annualized return on average assets was 1.08% compared to 0.98% at June 30, 2021.
- Annualized return on average stockholders' equity was 11.38% compared to 9.74% at June 30, 2021.
- The allowance for credit losses to total loans ratio decreased to 1.15% at June 30, 2022 from 1.30% at June 30, 2021.
- Non-performing loans to total loans was 0.00% at June 30, 2022 and 2021.
- The Company and the Bank exceeded all regulatory capital requirements and remained significantly above "well-capitalized" guidelines. At June 30, 2022, total risk-based capital ratio for the Company and the Bank were 13.74% and 13.67%, respectively.

- Tangible book value per common share (a Non-GAAP financial measure) was $9.00 as of June 30, 2022, compared to $27.71 at June 30, 2021. The decline was primarily driven by an increase in issued and outstanding Class A common shares as result of the exchange and redemption of preferred shares combined with the completion of the IPO in 2021. See “Reconciliation and Management Explanation for Non-GAAP Financial Measures” for a reconciliation of this non-GAAP financial measure.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared based on the application of U.S. GAAP, the most significant of which are described in Note 1 “Summary of Significant Accounting Policies” of the Company’s 2021 Form 10-K. 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.

Allowance for Credit Losses

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 Company’s charge-off policy is to continuously review all impaired loans to monitor the Company’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

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

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

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

Segment Reporting

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

Results of Operations

General

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

	June 30, 2022	December 31, 2021
Consolidated Balance Sheets:		
Total assets	$ 2,016,086	$ 1,853,939
Total loans [(1)]	$ 1,372,733	$ 1,190,081
Total deposits	$ 1,738,720	$ 1,590,379
Total stockholders' equity	$ 180,068	$ 203,897

(1) Loan amounts include deferred fees/costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Consolidated Statements of Operations:				
Net interest income before provision for credit losses	$ 15,642	$ 12,474	$ 30,021	$ 24,949
Total non-interest income	$ 1,617	$ 1,516	$ 3,562	$ 3,837
Total non-interest expense	$ 9,551	$ 8,674	$ 19,163	$ 17,351
Net income	$ 5,295	$ 4,053	$ 10,149	$ 8,834
Net income available to common stockholders	$ 5,295	$ 3,299	$ 10,149	$ 7,299
Profitability:				
Efficiency ratio	55.34%	62.00%	57.06%	60.28%
Net interest margin	3.37%	3.14%	3.30%	3.24%

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

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Net income increased to $5.3 million for the three months ended June 30, 2022 from $4.1 million for the same period in 2021. Net income available to common stockholders increased $2.0 million for the three months ended June 30, 2022 compared to the same period in 2021 primarily because of increase in net interest income and no dividend payments in 2022.

Six months ended June 30, 2022 compared to six months ended June 30, 2021

Net income increased to $10.1 million for the six months ended June 30, 2022 from $8.8 million for the same period in 2021. Net income available to common stockholders increased $2.9 million for the six months ended June 30, 2022 compared to the same period in 2021 primarily because of increase in net interest income and no dividend payments in 2022.

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 indirect 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.

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

	Three Months Ended June 30,					
	2022			2021		
	Average Balance (1)	Interest	Yield/Rate (2)	Average Balance	Interest	Yield/Rate (2)
Assets						
Interest-earning assets:						
Loans (3)	$ 1,296,476	$ 14,053	4.35 %	$ 1,088,492	$ 11,538	4.19 %
Investment securities (4)	493,352	2,510	2.04 %	385,090	1,968	2.04 %
Other interest earnings assets	69,503	121	0.70 %	101,134	23	0.09 %
Total interest-earning assets	1,859,331	16,684	3.60 %	1,574,716	13,529	3.41 %
Non-interest earning assets	109,050			85,344		
Total assets	$ 1,968,381			$ 1,660,060		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 66,349	17	0.10 %	$ 52,620	15	0.11 %
Saving and money market deposits	781,076	615	0.32 %	607,752	523	0.35 %
Time deposits	224,284	271	0.48 %	235,899	379	0.65 %
Total interest-bearing deposits	1,071,709	903	0.34 %	896,271	917	0.41 %
Borrowings and repurchase agreements	36,330	139	1.53 %	36,000	138	1.52 %
Total interest-bearing liabilities	1,108,039	1,042	0.38 %	932,271	1,055	0.45 %
Non-interest bearing demand deposits	644,975			535,894		
Other non-interest-bearing liabilities	28,770			24,964		
Total liabilities	1,781,784			1,493,129		
Stockholders' equity	186,597			166,931		
Total liabilities and stockholders' equity	$ 1,968,381			$ 1,660,060		
Net interest income		$ 15,642			$ 12,474	
Net interest spread (5)			3.23 %			2.96 %
Net interest margin (6)			3.37 %			3.14 %

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

	Six Months Ended June 30,					
	2022			2021		
	Average Balance (1)	Interest	Yield/Rate (2)	Average Balance (1)	Interest	Yield/Rate (2)
Assets						
Interest-earning assets:						
Loans (3)	$ 1,254,189	$ 27,035	4.35 %	$ 1,080,183	$ 23,406	4.31 %
Investment securities (4)	501,758	4,839	1.94 %	361,394	3,812	2.11 %
Other interest-earnings assets	79,763	152	0.38 %	89,914	39	0.90 %
Total interest-earning assets	1,835,710	32,026	3.52 %	1,531,491	27,257	3.54 %
Non-interest earning assets	105,374			85,718		
Total assets	$ 1,941,084			$ 1,617,209		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 65,398	33	0.10 %	$ 48,607	29	0.12 %
Saving and money market deposits	758,729	1,166	0.31 %	588,282	1,071	0.37 %
Time deposits	223,781	530	0.48 %	241,993	933	0.78 %
Total interest-bearing deposits	1,047,908	1,729	0.33 %	878,882	2,033	0.47 %
Borrowings and repurchase agreements	36,171	276	1.54 %	36,000	275	1.52 %
Total interest-bearing liabilities	1,084,079	2,005	0.37 %	914,882	2,308	0.51 %
Non-interest bearing demand deposits	635,740			509,283		
Other non-interest-bearing liabilities	27,079			23,803		
Total liabilities	1,746,898			1,447,968		
Stockholders' equity	194,186			169,241		
Total liabilities and stockholders' equity	$ 1,941,084			$ 1,617,209		
Net interest income		$ 30,021			$ 24,949	
Net interest spread (5)			3.15 %			3.03 %
Net interest margin (6)			3.30 %			3.24 %

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

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Net interest income before the provision for credit losses was $15.6 million for the three months ended June 30, 2022, an increase of $3.2 million or 25.4%, from $12.5 million for the same period in 2021. This increase was primarily attributable to higher income from larger loan and investment portfolios combined with an increase in the weighted average loan yield.

Included with loan interest income are PPP loan fees totaling $484 thousand and $925 thousand for the three months ended June 30, 2022 and 2021, respectively. PPP loan fees are recognized upon loan forgiveness by the SBA.

Net interest margin increased to 3.37% for the quarter ended June 30, 2022 from 3.14% for the same period in 2021. The yield for loans and other interest-earning assets increased, while the overall interest-bearing deposits cost decreased.

Six months ended June 30, 2022 compared to six months ended June 30, 2021

Net interest income before the provision for credit losses was $30.0 million for the six months ended June 30, 2022, an increase of $5.1 million or 20.3%, from $24.9 million for the same period in 2021. This increase was primarily attributable to higher income from larger loan and investment portfolios combined with a decrease in the average deposit cost.

Included with loan interest income are PPP loan fees totaling $1.5 million and $2.4 million for the six months ended June 30, 2022 and 2021, respectively. PPP loan fees are recognized upon loan forgiveness by the SBA.

Net interest margin increased to 3.30% at June 30, 2022 from 3.24% in the same period in 2021. The overall interest-bearing liabilities yields decreased.

Provision for Credit Losses

The ACL represents probable incurred losses in our portfolio. We maintain an adequate ACL that can mitigate probable losses inherent 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 and historical trends and economic conditions and other applicable factors.

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

The provision for credit loss was $705 thousand for the three months ended June 30, 2022 compared no provision recorded for the same period in 2021. The primary driver of the provision expense was attributed to loan growth.

Six months ended June 30, 2022 compared to six months ended June 30, 2021

The provision for credit loss was $705 thousand for the six months ended June 30, 2022 compared a net recovery of $160 thousand for the same period in 2021. The primary driver of the provision expense was attributed to loan growth. The ACL as a percentage of total loans decreased to 1.15% at June 30, 2022 compared to 1.30% at June 30, 2021 due to the growth of the loan portfolio.

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

Non-Interest Income

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Service fees	$ 1,083	$ 903	$ 1,983	$ 1,792
Gain (loss) on sale of securities available for sale, net	(3)	187	18	249
Gain on sale of loans held for sale, net	22	23	356	987
Loan settlement	-	-	161	-
Other non-interest income	515	403	1,044	809
Total non-interest income	$ 1,617	$ 1,516	$ 3,562	$ 3,837

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Non-interest income for the three months ended June 30, 2022 increased $101 thousand or 6.7%, compared to the same period in 2021. This increase was primarily driven by higher services fees.

Six months ended June 30, 2022 compared to the six months ended June 30, 2021

Non-interest income for the six months ended June 30, 2022 decreased $275 thousand or 7.2%, compared to the same period in 2021. This decrease was primarily driven by fewer loan sales resulting in reduced gains.

Non-Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Salaries and employee benefits	$ 5,913	$ 5,213	$ 11,788	$ 10,491
Occupancy	1,251	1,411	2,521	2,798
Regulatory assessment and fees	226	195	439	373
Consulting and legal fees	398	373	915	558
Network and information technology services	448	332	835	840
Other operating	1,315	1,150	2,665	2,291
Total non-interest expense	$ 9,551	$ 8,674	$ 19,163	$ 17,351

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Non-interest expense for the three months ended June 30, 2022 increased $877 thousand or 10.1%, compared to the same period in 2021. The increase was primarily driven by higher salaries and employee benefits due to new hires, salary compensation, and seasonal payroll taxes.

Six months ended June 30, 2022 compared to the six months ended June 30, 2021

Non-interest expense for the six months ended June 30, 2022 increased $1.8 million or 10.4%, compared to the same period in 2021. The increase was primarily driven by higher salaries and employee benefits due to new hires, salary compensation, and seasonal payroll taxes.

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 covering key employees, purchasing municipal bonds, and overall levels of taxable income will be important elements in determining our effective tax rate.

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Income tax expense for the three months ended June 30, 2022 increased to $1.7 million from $1.3 million for the same period in 2021. The effective tax rate for the three months ended June 30, 2022 was 24.4% and for the three months ended 2021 was 23.8%.

Six months ended June 30, 2022 compared to the six months ended June 30, 2021

Income tax expense for the six months ended June 30, 2022 increased to $3.6 million from $2.8 million for the same period in 2021. The Company's effective tax rate was 26.0% compared to 23.8% for the same period in 2021.

For a further discussion on income taxes, see Note 4 "Income Taxes" to the Consolidated Financial Statements in this Form 10-Q.

Analysis of Financial Condition

Total assets at June 30, 2022 were $2.0 billion, an increase of $162.1 million, or 8.7%, over total assets of $1.9 billion at December 31, 2021. Total loans increased $182.7 million, or 15.3%, to $1.4 billion at June 30, 2022 compared to $1.2 billion at December 31, 2021. Total deposits increased by $148.3 million, or 9.3%, to $1.7 billion at June 30, 2022 compared to December 31, 2021.

Investment Securities

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

The investment portfolio is managed in accordance with the Asset and Liability Management ("ALM") policy, which includes 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 Company, 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, U.S. agency mortgage-backed securities, collateralized mortgage obligation securities, municipal securities, and other debt securities, all with varying contractual maturities and coupons. Due to the optionality embedded in these securities, the final maturities do not necessarily represent the expected life of the portfolio. Some of these securities will be called or paid down depending on capital market conditions and expectations. The investment portfolio is regularly reviewed by the Chief Financial Officer, Treasurer, or the ALCO of the Company to ensure an appropriate risk and return profile as well as for adherence to the investment policy.

As of June 30, 2022, the investment portfolio consisted of available-for-sale ("AFS") and held-to-maturity ("HTM") debt securities. During the year ended December 31, 2021, there were 28 investment securities that were transferred from AFS to 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. The transfer of debt securities from the AFS to HTM category was made at fair value at the date of transfer. The unrealized gain or loss at the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the HTM securities. Such amounts are amortized over the remaining life of the security. There was no immediate impact to net income on the date of transfer. Two of these transferred securities totaling $2.0 million matured during the second quarter of 2022.

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 is then 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 June 30, 2022, there are no securities which management has classified as OTTI. For further discussion of our analysis on impaired investment securities for OTTI, see Note 2 "Investment Securities" to the Consolidated Financial Statements in this Form 10-Q.

AFS and HTM investment securities decreased $68.1 million or 13.0% to $456.1 million at June 30, 2022 from $524.2 million at December 31, 2021. Investment securities decreased due to payments received and higher unrealized losses. Management reinvested excess cash balances into high credit quality investments to increase the Company's profitability and modify the Company's balance sheet duration according to the ALM policy. As of June 30, 2022, corporate bond securities with a market value of $23.6 million were pledged to secure public deposits. The investment portfolio does not have any tax-exempt securities.

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

	June 30, 2022		December 31, 2021	
Available-for-sale:	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government Agency	$ 27,816	$ 25,850	$ 10,564	$ 10,520
U.S. Treasury	2,468	2,437	-	-
Collateralized mortgage obligations	155,340	133,820	160,506	156,829
Mortgage-backed securities - residential	111,708	95,982	120,643	118,842
Mortgage-backed securities - commercial	44,670	40,121	49,905	50,117
Municipal securities	25,124	19,602	25,164	24,276
Bank subordinated debt securities	16,503	15,972	27,003	28,408
Corporate bonds	6,062	5,680	12,068	12,550
	$ 389,691	$ 339,464	$ 405,853	$ 401,542
Held-to-maturity:				
U.S. Government Agency	$ 34,100	$ 29,408	$ 34,505	$ 33,904
Collateralized mortgage obligations	40,806	35,293	44,820	43,799
Mortgage-backed securities - residential	27,478	23,524	26,920	26,352
Mortgage-backed securities - commercial	3,095	2,692	3,103	3,013
Corporate bonds	11,192	10,150	13,310	13,089
	$ 116,671	$ 101,067	$ 122,658	$ 120,157

The following table shows the weighted average yields, categorized by contractual maturity, for investment securities as of June 30, 2022 (in thousands, except ratios):

	Within 1 year		After 1 year through 5 years		After 5 years through 10 years		After 10 years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
Available-for-sale:										
U.S. Government Agency	$ -	0.00%	$ 4,810	2.76%	$ 2,015	2.84%	$ 20,991	2.82%	$ 27,816	2.81%
U.S. Treasury	-	0.00%	2,468	2.32%	-	0.00%	-	0.00%	2,468	2.32%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	155,340	1.49%	155,340	1.49%
MBS - residential	-	0.00%	-	0.00%	-	0.00%	111,708	1.61%	111,708	1.61%
MBS - commercial	-	0.00%	-	0.00%	-	0.00%	44,670	1.99%	44,670	1.99%
Municipal securities	-	0.00%	-	0.00%	1,000	2.05%	24,124	1.72%	25,124	1.73%
Bank subordinated debt securities	-	0.00%	-	0.00%	16,503	4.71%	-	0.00%	16,503	4.71%
Corporate bonds	-	0.00%	6,062	2.59%	-	0.00%	-	0.00%	6,062	2.59%
	$ -		$ 13,340		$ 19,518		$ 356,833		$ 389,691	1.85%
Held-to-maturity:										
U.S. Government Agency	$ -	0.00%	$ 7,890	1.03%	$ 18,540	1.32%	$ 7,670	1.58%	$ 34,100	1.31%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	40,806	1.42%	40,806	1.42%
MBS - residential	-	0.00%	1,354	2.63%	9,224	1.61%	16,900	2.05%	27,478	1.93%
MBS - commercial	-	0.00%	-	0.00%	3,095	1.62%	-	0.00%	3,095	1.62%
Corporate bonds	-	0.00%	11,192	2.71%	-	0.00%	-	0.00%	11,192	2.71%
	$ -		$ 20,436		$ 30,859		$ 65,376		$ 116,671	1.64%

Loans

Loans are the largest category of interest-earning assets on the Consolidated Balance Sheets, and usually provide 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 Company manages and mitigates such risks in accordance with the credit and ALM policies, risk tolerance and balance sheet composition.

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

	June 30, 2022		December 31, 2021	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 203,662	14.8 %	$ 201,359	16.9 %
Commercial Real Estate	843,445	61.5 %	704,988	59.2 %
Commercial and Industrial	131,271	9.5 %	146,592	12.3 %
Foreign Banks	84,770	6.2 %	59,491	5.0 %
Consumer and Other	109,250	8.0 %	79,229	6.6 %
Total gross loans	1,372,398	100.0 %	1,191,659	100.0 %
Less: Deferred fees (cost)	(335)		1,578	
Total loans net of deferred fees (cost)	1,372,733		1,190,081	
Less: Allowance for credit losses	15,786		15,057	
Total net loans	$ 1,356,947		$ 1,175,024	

Total gross loans increased by $180.7 million or 15.2% at June 30, 2022 compared to December 31, 2021. The commercial real estate and to a lesser extent, foreign banks and consumer and other loan segments had the most significant growth partially offset by declines in the commercial and industrial loan segment. Commercial and industrial loans declined primarily because of continuing PPP loan forgiveness.

Our loan portfolio continues to grow, with commercial real estate lending as the primary focus which represented approximately 61.5% of the total gross loan portfolio as of June 30, 2022. 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 in recent years is primarily due to implementation of our relationship-based banking model and the success of our relationship managers in competing for new business in a highly competitive metropolitan area. Many of our larger loan clients have leng-term relationships with members of our senior management team or our relationship managers that date back to former institutions.

From a liquidity perspective, our loan portfolio provides us with additional liquidity due to repayments or unexpected prepayments. The following table shows maturities and sensitivity to interest rate changes for the loan portfolio at June 30, 2022 (in thousands):

	Due in 1 year or less	Due in 1 to 5 years	Due after 5 to 15 years	Due after 15 years	Total
Residential Real Estate	$ 10,471	$ 26,776	$ 79,213	$ 87,202	$ 203,662
Commercial Real Estate	41,993	186,681	610,145	4,626	843,445
Commercial and Industrial	20,660	37,175	29,233	44,203	131,271
Foreign Banks	84,770	-	-	-	84,770
Consumer and Other	1,338	3,732	11,856	92,324	109,250
Total gross loans	$ 159,232	$ 254,364	$ 730,447	$ 228,355	$ 1,372,398
Interest rate sensitivity:					
Fixed interest rates	$ 125,693	$ 179,013	$ 140,784	$ 115,986	$ 561,476
Floating or adjustable rates	33,539	75,351	589,663	112,369	810,922
Total gross loans	$ 159,232	$ 254,364	$ 730,447	$ 228,355	$ 1,372,398

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

As of June 30, 2022, approximately 59.1% of the loans have adjustable/variable rates and 40.9% 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 Company 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 Company's internal credit risk grading system is based on experiences with similarly graded loans. Internal credit risk grades are reviewed at least once a year, and more frequently as needed. Internal credit risk ratings may change based on management's assessment of the results from the annual review, portfolio monitoring, and other developments observed with borrowers.

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

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

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

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

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

Loss – Loans classified as loss are considered uncollectible.

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

	June 30, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 203,662	$ -	$ -	$ -	$ 203,662
Commercial Real Estate	841,842	1,197	406	-	843,445
Commercial and Industrial	130,809	-	462	-	131,271
Foreign Banks	84,770	-	-	-	84,770
Consumer and Other	109,040	-	210	-	109,250
	$ 1,370,123	$ 1,197	$ 1,078	$ -	$ 1,372,398

	December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 196,778	$ -	$ 4,581	$ -	$ 201,359
Commercial Real Estate	703,349	1,222	417	-	704,988
Commercial and Industrial	146,039	-	553	-	146,592
Foreign Banks	59,491	-	-	-	59,491
Consumer and Other	79,005	-	224	-	79,229
	$ 1,184,662	$ 1,222	$ 5,775	$ -	$ 1,191,659

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Non-Performing Assets

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

	June 30, 2022	December 31, 2021
Non-accrual loans, less non-accrual TDR loans	$ -	$ 1,190
Non-accrual TDRs	-	-
Loans past due over 90 days and still accruing	-	-
Total non-performing loans	-	1,190
Other real estate owned	-	-
Total non-performing assets	$ -	$ 1,190
Asset quality ratios:		
Allowance for credit losses to total loans	1.15%	1.27%
Allowance for credit losses to non-performing loans	0%	1,265%
Non-performing loans to total loans	0%	0.10%

Non-performing assets include all loans categorized as non-accrual or restructured, impaired securities, non-accrual troubled debt restructuring ("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 Company's income for a loan with increased credit risk.

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

A TDR is a debtor that is experiencing financial difficulties and to whom the Company grants a loan 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 Company 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 at the dates indicated (in thousands):

	June 30, 2022			December 31, 2021		
	Accrual Status	Non-Accrual Status	Total TDRs	Accrual Status	Non-Accrual Status	Total TDRs
Residential real estate	$ 7,307	$ -	$ 7,307	$ 7,815	$ -	$ 7,815
Commercial real estate	594	-	594	696	-	696
Commercial and industrial	99	-	99	141	-	141
Consumer and other	210	-	210	224	-	224
Total	$ 8,210	$ -	$ 8,210	$ 8,876	$ -	$ 8,876

The Company allocated $319 thousand and $360 thousand of specific allowance for TDR loans at June 30, 2022 and December 31, 2021, respectively. There was no commitment to lend additional funds to these TDR customers at either date.

During the quarter ended June 30, 2022 and 2021, there were no defaults on TDR loans within the prior 12 months. Additionally, the Company did not have any new TDR loans during the three months ended June 30, 2022 and 2021.

The Company 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.

For further discussion on non-performing loans, see Note 3 “Loans” to the Consolidated Financial Statements on this Form 10-Q.

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.

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

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

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended June 30, 2021						
Beginning balance	$ 3,087	$ 9,320	$ 2,005	$ 407	$ 190	$ 15,009
Provision for credit losses	(322)	(568)	398	147	345	-
Recoveries	4	-	64.00	-	1	69
Charge-offs	(229)	-	-	-	(1)	(230)
Ending Balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848
Average loans	$ 216,190	$ 650,871	$ 160,968	$ 48,551	$ 11,912	$ 1,088,492
Net charge-offs to average loans	0.42%	0.00%	-0.16%	0.00%	0.00%	0.06%
Six Months Ended June 30, 2021						
Beginning balance	$ 3,408	$ 9,453	$ 1,689	$ 348	$ 188	$ 15,086
Provision for credit losses	(647)	(701)	627	206	355	(160)
Recoveries	8	-	151	-	2	161
Charge-offs	(229)	-	-	-	(10)	(239)
Ending Balance	$ 2,540	$ 8,752	$ 2,467	$ 554	$ 535	$ 14,848
Average loans	$ 223,628	$ 638,444	$ 163,922	$ 45,432	$ 8,757	$ 1,080,183
Net charge-offs to average loans	0.20%	0.00%	-0.19%	0.00%	0.18%	0.01%

Bank-Owned Life Insurance

As of June 30, 2022, the combined cash surrender value of all bank-owned life insurance ("BOLI") policies was $42.2 million. Changes in cash surrender value are recorded to non-interest income in the Consolidated Statements of Operations. The Company had BOLI policies with five insurance carriers. The Company is the beneficiary of these policies.

Deposits

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

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

	Three Months Ended June 30,			
	2022		2021	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest-bearing demand deposits	$ 644,975	0.00%	$ 535,894	0.00%
Interest-bearing demand deposits	66,349	0.10%	52,620	0.11%
Saving and money market deposits	781,076	0.32%	607,752	0.35%
Time deposits	224,284	0.48%	235,899	0.65%
	$ 1,716,684	0.21%	$ 1,432,165	0.26%

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. Total estimated uninsured deposits were $1.0 billion and $897.8 million at June 30, 2022 and December 31, 2021, respectively.

The following table shows scheduled maturities of uninsured time deposits as of June 30, 2022 (in thousands):

	June 30, 2022
Three months or less	$ 27,087
Over three through six months	22,393
Over six though twelve months	31,622
Over twelve months	23,301
	$ 104,403

Other Liabilities

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

As of June 30, 2022 escrow balances totaled $10.2 million compared to $4.0 million at December 31, 2021.

Borrowings

As a member of the FHLB, we are 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 Company.

As of June 30, 2022 we had $66.0 million of fixed-rate advances outstanding from the FHLB with a weighted average rate of 1.55%. Most of the advances are due in the first two calendar quarters of 2025.

The following table presents the FHLB fixed rate advances as of June 30, 2022 (in thousands):

Interest Rate	Type of Rate	Maturity Date	Amount
0.81%	Fixed	August 17, 2023	$ 5,000
1.04%	Fixed	July 30, 2024	5,000
2.05%	Fixed	March 27, 2025	10,000
1.91%	Fixed	March 28, 2025	5,000
1.81%	Fixed	April 17, 2025	5,000
1.07%	Fixed	July 18, 2025	6,000
1.58%	Fixed	July 14, 2022	30,000
			$ 66,000

We have also established Fed Funds lines of credit with our upstream correspondent banks to manage temporary fluctuations in our daily cash balances. As of June 30, 2022, there were no outstanding balances with the Fed Funds lines 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 than we do for on-balance sheet items. We are not aware of any accounting loss to be incurred by funding these commitments; however, we maintain an allowance for off-balance sheet credit risk which is recorded under other liabilities on the Consolidated Balance Sheets.

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

	June 30, 2022	December 31, 2021
Commitments to grant loans and unfunded lines of credit	$ 142,498	$ 134,877
Standby and commercial letters of credit	3,843	6,420
	$ 146,341	$ 141,297

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

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

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

Asset and Liability Management Committee

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

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

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

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

Income simulations are used to assess the impact of changing rates on earnings under different rates scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes (flat and 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 Company also evaluates the economic value of equity (“EVE”). This assessment allows us to measure the degree to which the economic values will change under different interest rate scenarios (parallel and non-parallel). The economic value approach focuses on a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

Market and Interest Rate Risk Management

According to our last ALCO model run as of June 30, 2022, we are an asset-sensitive company for years one and two. 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 deposit behavior. As part of our ALM strategy and policy, management has the ability to modify the balance sheet to either increase asset duration and decrease liability duration to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

According to our model, as of June 30, 2022, NIM should increase for static rate scenarios (-400 basis points or +400 basis points). For the static forecast in year one, the estimated NIM will remain stable from the base case scenario to a +400 basis points scenario. Additionally, utilizing an EVE approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. According to our balance sheet composition, and as expected, our model stipulates that an increase of rates will have a negative impact on the EVE. Results and analysis are presented quarterly to the Board, and strategies are defined.

We have also been reducing asset sensitivity by extending asset duration, which has lowered our net interest income volatility and allowed us to keep the net interest income consistent with ALCO objectives.

Liquidity

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

Liquidity risk is the risk that we will be unable to meet our short-term and long-term obligations as they become due because of an inability to liquidate assets or obtain relatively adequate funding. The Company’s obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and composition, credit quality of our assets and the cash flow profiles of our on- and off-balance sheet obligations.

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

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

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

Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the Board and active involvement of senior management; appropriate strategies, policies, procedures, and limits used to identify and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the Company; active management of intraday liquidity and collateral; an appropriately diverse mix of existing

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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, and borrowings from the FHLB. Accordingly, our liquidity resources were adequate to fund loans and meet other cash needs as necessary. We do not expect liquidity resources to be compromised at this time.

Capital Adequacy

As of June 30, 2022, the Bank was well capitalized under the FDIC's prompt corrective action framework. We also follow the capital conservation buffer framework, and as of June 30, 2022, we exceeded the capital conversation buffer in all capital ratios, according to our actual ratios. The following table presents the capital ratios for both the Company and the Bank at the dates indicated (in thousands, except ratios):

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2022:						
Total risk-based capital:						
USCB Financial Holdings, Inc.	$ 202,417	13.74 %	$ 117,842	8.00 %	$ 147,302	10.00 %
U.S. Century Bank	$ 201,314	13.67 %	$ 117,842	8.00 %	$ 147,302	10.00 %
Tier 1 risk-based capital:						
USCB Financial Holdings, Inc.	$ 186,384	12.65 %	$ 88,381	6.00 %	$ 117,842	8.00 %
U.S. Century Bank	$ 185,281	12.58 %	$ 88,381	6.00 %	$ 117,842	8.00 %
Common equity tier 1 capital:						
USCB Financial Holdings, Inc.	$ 186,384	12.65 %	$ 66,286	4.50 %	$ 95,746	6.50 %
U.S. Century Bank	$ 185,281	12.58 %	$ 66,286	4.50 %	$ 95,746	6.50 %
Leverage ratio:						
USCB Financial Holdings, Inc.	$ 186,384	9.43 %	$ 79,040	4.00 %	$ 98,800	5.00 %
U.S. Century Bank	$ 185,281	9.38 %	$ 79,040	4.00 %	$ 98,800	5.00 %
December 31, 2021:[1]						
Total risk-based capital	$ 186,735	14.92 %	$ 100,125	8.00 %	$ 125,157	10.00 %
Tier 1 risk-based capital	$ 171,484	13.70 %	$ 75,094	6.00 %	$ 100,125	8.00 %
Common equity tier 1 capital	$ 171,484	13.70 %	$ 56,321	4.50 %	$ 81,352	6.50 %
Leverage ratio	$ 171,484	9.55 %	$ 71,825	4.00 %	$ 89,781	5.00 %

(1) As of December 31, 2021, the regulatory capital ratios for both USCB Financial Holdings, Inc. and U.S. Century Bank were the same since there was no activity between both of these entities.

Impact of Inflation

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

Recently Issued Accounting Pronouncements

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

Reconciliation and Management Explanation of Non-GAAP Financial Measures

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

	As of or For the Three Months Ended				
	6/30/2022	3/31/2022	12/31/2021	9/30/2021	6/30/2021
Pre-Tax Pre-Provision ("PTPP") Income:(1)					
Net income	$ 5,295	$ 4,854	$ 5,650	$ 6,593	$ 4,053
Plus: Provision for income taxes	1,708	1,858	$ 1,751	$ 2,088	$ 1,263
Plus: Provision for (recovery of) credit losses	705	-	$ -	$ -	$ -
PTPP income	$ 7,708	$ 6,712	$ 7,401	$ 8,681	$ 5,316
PTPP Return on Average Assets:(1)					
PTPP income	$ 7,708	$ 6,712	$ 7,401	$ 8,681	$ 5,316
Average assets	$ 1,968,381	$ 1,913,484	$ 1,828,037	$ 1,741,423	$ 1,660,060
PTPP return on average assets(2)	1.57%	$ 1.42%	$ 1.61%	$ 1.98%	$ 1.28%
Operating Net Income:					
Net income	$ 5,295	$ 4,854	$ 5,650	$ 6,593	$ 4,053
Less: Net gains (losses) on sale of securities	(3)	$ 21	$ 35	$ (70)	$ 187
Less: Tax effect on sale of securities	1	$ (5)	$ (9)	$ 17	$ (46)
Operating net income	$ 5,297	$ 4,838	$ 5,624	$ 6,646	$ 3,912
Operating PTPP Income:(1)					
PTPP income	$ 7,708	$ 6,712	$ 7,401	$ 8,681	$ 5,316
Less: Net gains (losses) on sale of securities	(3)	$ 21	$ 35	$ (70)	$ 187
Operating PTPP Income	$ 7,711	$ 6,691	$ 7,366	$ 8,751	$ 5,129
Operating PTPP Return on Average Assets:(1)					
Operating PTPP income	$ 7,711	$ 6,691	$ 7,366	$ 8,751	$ 5,129
Average assets	$ 1,968,381	$ 1,913,484	$ 1,828,037	$ 1,741,423	$ 1,660,060
Operating PTPP Return on average assets(2)	1.57%	$ 1.42%	$ 1.60%	$ 1.99%	$ 1.24%
Operating Return on Average Assets:(1)					
Operating net income	$ 5,297	$ 4,838	$ 5,624	$ 6,646	$ 3,912
Average assets	$ 1,968,381	$ 1,913,484	$ 1,828,037	$ 1,741,423	$ 1,660,060
Operating return on average assets(2)	1.08%	$ 1.03%	$ 1.22%	$ 1.51%	$ 0.95%

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

(2) Annualized.

	As of or For the Three Months Ended				
	6/30/2022	3/31/2022	12/31/2021	9/30/2021	6/30/2021
Tangible book value per common share (at period-end):[1]					
Total stockholders' equity (GAAP)	$ 180,068	$ 192,039	$ 203,897	$ 201,918	$ 166,302
Less: Intangible assets	-	-	-	-	-
Less: Preferred stock	-	-	-	-	24,616
Tangible stockholders' equity (non-GAAP)	$ 180,068	$ 192,039	$ 203,897	$ 201,918	$ 141,686
Total shares issued and outstanding (at period-end):[2]					
Class A common shares	20,000,753	20,000,753	19,991,753	18,767,541	3,889,469
Class B common shares	-	-	-	1,224,212	1,224,212
Total common shares issued and outstanding	20,000,753	20,000,753	19,991,753	19,991,753	5,113,681
Tangible book value per common share (non-GAAP)	$ 9.00	$ 9.60	$ 10.20	$ 10.10	$ 27.71
Operating net income available to common stockholders:[1]					
Net income (GAAP)	$ 5,295	$ 4,854	$ 5,650	$ 6,593	$ 4,053
Less: Preferred dividends	-	-	-	542	754
Less: Exchange and redemption of preferred shares	-	-	-	89,585	-
Net income (loss) available to common stockholders (GAAP)	5,295	4,854	5,650	(83,534)	3,299
Add back: Exchange and redemption of preferred shares	-	-	-	89,585	-
Operating net income avail. to common stock (non-GAAP)	$ 5,295	$ 4,854	$ 5,650	$ 6,051	$ 3,299
Allocation of operating net income per common stock class:					
Class A common stock	$ 5,295	$ 4,854	$ 5,650	$ 5,598	$ 2,509
Class B common stock	$ -	$ -	$ -	$ 453	$ 790
Weighted average shares outstanding:					
Class A common stock					
Basic	20,000,753	19,994,953	18,913,914	15,121,460	3,889,469
Diluted	20,171,261	20,109,783	19,023,686	15,187,729	3,933,636
Class B common stock					
Basic	-	-	-	6,121,052	6,121,052
Diluted	-	-	-	6,121,052	6,121,052
Diluted EPS: [3] [4]					
Class A common stock					
Net income (loss) per diluted share (GAAP)	$ 0.26	$ 0.24	$ 0.30	$ (5.11)	$ 0.64
Add back: Exchange and redemption of preferred shares	-	-	-	5.48	-
Operating net income per diluted share (non-GAAP)	$ 0.26	$ 0.24	$ 0.30	$ 0.37	$ 0.64
Class B common stock					
Net income (loss) per diluted share (GAAP)	$ -	$ -	$ -	$ (1.02)	$ 0.13
Add back: Exchange and redemption of preferred shares	-	-	-	1.09	-
Operating net income per diluted share (non-GAAP)	$ -	$ -	$ -	$ 0.07	$ 0.13

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

(2) 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 were exchanged for an aggregate of 10,278,072 shares of Class A common stock. Additionally, the Bank completed the initial public offering of its Class A common stock on July 27, 2021, in which it issued 4,600,000 shares of Class A common stock. As such, the total shares issued and outstanding of Class A common stock was 18,767,541 shares at September 30, 2021.

(3) During 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.

(4) During the quarter ended December 31, 2021, the Company entered into agreements with the Class B shareholders to exchange all outstanding shares of Class B non-voting stock for Class A voting common stock at a ratio of 5 to 1. In calculating net income (loss) per diluted share for the prior quarters presented, 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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2022. Based on that evaluation, management believes that the Company's disclosure controls and procedures were effective to collect, process, and disclose the information required to be disclosed in the reports filed or submitted under the Exchange Act within the required time periods as of the end of the period covered by this Form 10-Q.

Changes in Internal Control Over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

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

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PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For detailed information about certain risk factors that could materially affect our business, financial condition, or future results, see “Part I, Item 1A – Risk Factors” of the 2021 Form 10-K. There have been no material changes from the risk factors previously disclosed in the 2021 Form 10-K.

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

(a) On February 28, 2022, stock options previously granted to a former Board member of the Company, pursuant to the Amended and Restated 2015 Equity Incentive Plan covering 9,000 shares of Class A common stock at an exercise price per share of $11.35 of the Company were exercised for an aggregate amount of $102 thousand. The options were issued while the former Board member was still serving as a director and prior to the issuer becoming a reporting company under the Exchange Act. The shares of Class A common stock subject to the exercised options were issued pursuant to the exemption provided by Rule 701 of the Securities Act of 1933.

(b) Not applicable.

(c) As previously described The Board adopted a stock repurchase program covering 750,000 shares of Class A common stock. No shares were purchased pursuant to such program by the Company during the three and six month ended June 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

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

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USCB FINANCIAL HOLDINGS, INC.
(Registrant)

Signature	Title	Date
/s/ Luis de la Aguilera Luis de la Aguilera	President, Chief Executive Officer, and Director (Principal Executive Officer)	August 11, 2022
/s/ Robert Anderson Robert Anderson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 11, 2022

Exhibit 31.1

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

I, Luis de la Aguilera, certify that:

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

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

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

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

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

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

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

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

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

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

/s/ Luis de la Aguilera
Luis de la Aguilera
President and Chief Executive Officer

Date: August 11, 2022

Exhibit 31.2

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

I, Robert Anderson, certify that:

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

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

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

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

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

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

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

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

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

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

/s/ Robert Anderson

Robert Anderson
Chief Financial Officer

Date: August 11, 2022

Exhibit 32.1

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

In connection with the Quarterly Report of USCB Financial Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Luis de la Aguilera, as President and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Luis de la Aguilera
Luis de la Aguilera
President and Chief Executive Officer

Date: August 11, 2022

Exhibit 32.2

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

In connection with the Quarterly Report of USCB Financial Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Anderson, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Robert Anderson
Robert Anderson
Chief Financial Officer

Date: August 11, 2022