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 March 31, 2023

OR

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

For the transition period from _____to_____

Commission File Number: 001-41196

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

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

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of May 1, 2023, the registrant had 19,622,380 shares of Class A common stock outstanding.

FORM 10-Q
March 31, 2023

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PART I
Item 1. Financial Statements

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

	March 31, 2023	December 31, 2022
ASSETS:		
Cash and due from banks	$ 5,586	$ 6,605
Interest-bearing deposits in banks	57,665	47,563
Total cash and cash equivalents	63,251	54,168
Investment securities held to maturity, net of allowance for credit losses of $0 (fair value $169,167 and $169,088, respectively)	186,428	188,699
Investment securities available for sale, at fair value	229,409	230,140
Federal Home Loan Bank stock, at cost	6,143	2,882
Loans held for investment, net of allowance of $18,887 and $17,487, respectively	1,561,507	1,489,851
Accrued interest receivable	8,216	7,546
Premises and equipment, net	5,135	5,263
Bank owned life insurance	43,048	42,781
Deferred tax assets, net	39,567	42,360
Lease right-of-use asset	13,652	14,395
Other assets	7,465	7,749
Total assets	$ 2,163,821	$ 2,085,834
LIABILITIES:		
Deposits:		
Demand deposits	$ 633,606	$ 629,776
Money market and savings accounts	900,478	915,853
Interest-bearing checking	50,573	66,675
Time deposits	245,805	216,977
Total deposits	1,830,462	1,829,281
Federal Home Loan Bank advances	120,000	46,000
Lease liability	13,652	14,395
Accrued interest and other liabilities	15,849	13,730
Total liabilities	1,979,963	1,903,406
Commitments and contingencies (See Notes 5 and 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock - Class C; $1.00 par value; $1,000 per share liquidation preference; 52,748 shares authorized; 0 and 0 issued and outstanding as of March 31, 2023 and December 31, 2022	-	-
Preferred stock - Class D; $1.00 par value; $5.00 per share liquidation preference; 12,309,480 shares authorized; 0 and 0 issued and outstanding as of March 31, 2023 and December 31, 2022	-	-
Preferred stock - Class E; $1.00 par value; $1,000 per share liquidation preference; 3,185,024 shares authorized; 0 and 0 issued and outstanding as of March 31, 2023 and December 31, 2022	-	-
Common stock - Class A Voting; $1.00 par value; 45,000,000 shares authorized; 19,622,380 issued and outstanding as of March 31, 2023, 20,000,753 issued and outstanding as of December 31, 2022	19,622	20,001
Common stock - Class B Non-voting; $1.00 par value; 8,000,000 shares authorized; 0 and 0 issued and outstanding as of March 31, 2023 and December 31, 2022	-	-
Additional paid-in capital on common stock	305,921	311,282
Accumulated deficit	(99,620)	(104,104)
Accumulated other comprehensive loss	(42,065)	(44,751)
Total stockholders' equity	183,858	182,428
Total liabilities and stockholders' equity	$ 2,163,821	$ 2,085,834

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

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

	Three Months Ended March 31,	
	2023	**2022**
Interest income:		
Loans, including fees	$ 19,711	$ 12,982
Investment securities	2,286	2,329
Interest-bearing deposits in financial institutions	382	31
Total interest income	22,379	15,342
Interest expense:		
Interest-bearing checking	43	16
Money market and savings accounts	4,785	551
Time deposits	1,057	259
Federal Home Loan Bank advances and other borrowings	497	137
Total interest expense	6,382	963
Net interest income before provision for credit losses	15,997	14,379
Provision for credit losses	201	-
Net interest income after provision for credit losses	15,796	14,379
Non-interest income:		
Service fees	1,205	900
(Loss) gain on sale of securities available for sale, net	(21)	21
Gain on sale of loans held for sale, net	347	334
Loan settlement	-	161
Other non-interest income	539	529
Total non-interest income	2,070	1,945
Non-interest expense:		
Salaries and employee benefits	6,377	5,875
Occupancy	1,299	1,270
Regulatory assessment and fees	224	213
Consulting and legal fees	358	517
Network and information technology services	478	387
Other operating expense	1,440	1,350
Total non-interest expense	10,176	9,612
Income before income tax expense	7,690	6,712
Income tax expense	1,881	1,858
Net income	$ 5,809	$ 4,854
Per share information:		
Net income per share, basic	$ 0.29	$ 0.24
Net income per share, diluted	$ 0.29	$ 0.24

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

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

	Three Months Ended March 31,	
	2023	2022
Net income	$ 5,809	$ 4,854
Other comprehensive income (loss):		
Unrealized gain (loss) on investment securities	3,637	(22,775)
Amortization of net unrealized (loss) gain on securities transferred from available-for-sale to held-to-maturity	(60)	65
Reclassification adjustment for loss (gain) included in net income	21	(21)
Tax effect	(912)	5,789
Total other comprehensive income (loss), net of tax	2,686	(16,942)
Total comprehensive income (loss)	$ 8,495	$ (12,088)

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

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

	Common Stock					
	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2022	20,000,753	$ 20,001	$ 311,282	$ (104,104)	$ (44,751)	$ 182,428
Cumulative effect of adoption of accounting principle related to ASC 326	-	-	-	(1,325)	-	(1,325)
Adjusted beginning balance after cumulative effect adjustment	20,000,753	20,001	311,282	(105,429)	(44,751)	181,103
Net income	-	-	-	5,809	-	5,809
Other comprehensive income	-	-	-	-	2,686	2,686
Repurchase of Class A common stock	(500,000)	(500)	(5,367)	-	-	(5,867)
Restricted stock issued	121,627	121	(121)	-	-	-
Stock based compensation	-	-	127	-	-	127
Balance at March 31, 2023	19,622,380	$ 19,622	$ 305,921	$ (99,620)	$ (42,065)	$ 183,858
Balance at January 1, 2022	19,991,753	$ 19,992	$ 310,666	$ (124,245)	$ (2,516)	$ 203,897
Net income	-	-	-	4,854	-	4,854
Other comprehensive loss	-	-	-	-	(16,942)	(16,942)
Exercise of stock options	9,000	9	93	-	-	102
Stock-based compensation	-	-	128	-	-	128
Balance at March 31, 2022	20,000,753	$ 20,001	$ 310,887	$ (119,391)	$ (19,458)	$ 192,039

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

	Three Months Ended March 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 5,809	$ 4,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	201	-
Depreciation and amortization	150	188
(Accretion) Amortization of premiums on securities, net	(38)	169
Accretion of deferred loan fees, net	(93)	(807)
Stock-based compensation	127	128
Loss (gain) on sale of available for sale securities	21	(21)
Gain on sale of loans held for sale	(347)	(334)
Increase in cash surrender value of bank owned life insurance	(267)	(266)
Decrease in deferred tax assets	1,881	1,858
Net change in operating assets and liabilities:		
Accrued interest receivable	(670)	(328)
Other assets	284	(2,838)
Accrued interest and other liabilities	1,943	3,000
Net cash provided by operating activities	9,001	5,603
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	2,406	2,626
Purchase of investment securities available for sale	(7,667)	(42,794)
Proceeds from maturities and pay-downs of investment securities available for sale	3,261	14,788
Proceeds from sales of investment securities available for sale	8,617	14,558
Net increase in loans held for investment	(77,413)	(617)
Purchase of loans held for investment	-	(70,175)
Additions to premises and equipment	(22)	(155)
Proceeds from the sale of loans held for sale	4,847	3,643
Proceeds from the redemption of Federal Home Loan Bank stock	3,570	-
Purchase of Federal Home Loan Bank stock	(6,831)	(177)
Net cash used in investment activities	(69,232)	(80,735)
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock, net	-	102
Repurchase of Class A common stock	(5,867)	-
Net increase in deposits	1,181	122,915
Proceeds from Federal Home Loan Bank advances	158,000	-
Repayments on Federal Home Loan Bank advances	(84,000)	-
Net cash provided by financing activities	69,314	123,017
Net increase in cash and cash equivalents	9,083	47,885
Cash and cash equivalents at beginning of period	54,168	46,228
Cash and cash equivalents at end of period	$ 63,251	$ 94,113
Supplemental disclosure of cash flow information:		
Interest paid	$ 6,044	$ 961
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans held for investment to loans held for sale	$ 4,500	$ 3,309

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

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

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

Basis of Presentation

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

Principles of Consolidation

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

Use of Estimates

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

Reclassifications

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

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Measurement of Credit Losses on Financial Instruments

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

Under CECL, the Company estimates the allowance for credit losses using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

Historical credit losses provide the basis for estimation of expected credit losses. Qualitative adjustments are applied to the expected credit losses estimated for the loan portfolio in relation to potential limitations of the quantitative model. A scorecard is used to aid management in the assessment of qualitative factor adjustments applied to expected credit losses.

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

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

For loans collectively evaluated, $1.3 billion of loan receivables or 84% were evaluated under Discounted Cash Flow method and $251.0 million of loan receivables or 16% were evaluated under the Remaining Life method. The remaining $7.9 million loan receivable of the total loan portfolio were individually evaluated.

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

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

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

The impact of adoption of the ASU 2016-13 was an increase to the allowance for credit losses on loans receivables of $1.1 million and an increase to the reserve for unfunded commitments of $259 thousand. This one-time cumulative adjustment resulted in a decrease of $1.3 million in retained earnings. See “Allowance for Credit Losses” section in Note 3 for more information on the allowance of credit losses (”ACL”).

Trouble Debt Restructuring

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

Issued and Not Yet Adopted

Reference Rate Reform

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

2. INVESTMENT SECURITIES

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

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

At quarter end, HTM securities included $175.4 million of U.S. Government and U.S. Agency issued bonds and mortgage-backed securities, because of the explicit and/or implicit guarantee on these bonds the Company holds no reserves on these holdings. The remaining portion of the HTM portfolio is made up of $11.0 million in investment grade corporate bonds. The required reserve for these holdings is determined each quarter using the model described above. The resulting amount of allowance was immaterial at March 31, 2023.

There was no allowance for Available for Sale (“AFS”) securities that needed to be recorded as of March 31, 2023.

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):

	March 31, 2023			
Available-for-sale:	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government Agency	$ 10,184	$ -	$ (1,353)	$ 8,831
Collateralized mortgage obligations	110,180	-	(21,343)	88,837
Mortgage-backed securities - residential	72,690	-	(12,124)	60,566
Mortgage-backed securities - commercial	37,043	6	(4,449)	32,600
Municipal securities	25,064	-	(5,754)	19,310
Bank subordinated debt securities	16,831	18	(1,352)	15,497
Corporate bonds	4,035	-	(267)	3,768
	$ 276,027	$ 24	$ (46,642)	$ 229,409
Held-to-maturity:				
U.S. Government Agency	$ 44,792	$ 126	$ (5,182)	$ 39,736
U.S. Treasury	9,951	-	(8)	9,943
Collateralized mortgage obligations	67,404	161	(7,019)	60,546
Mortgage-backed securities - residential	41,842	483	(4,237)	38,088
Mortgage-backed securities - commercial	11,399	-	(644)	10,755
Corporate bonds	11,040	-	(941)	10,099
	$ 186,428	$ 770	$ (18,031)	$ 169,167

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

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

Gains and losses on the sale of securities are recorded on the trade date and are determined on the specific identification basis. The following table presents the proceeds, realized gross gains and realized gross losses on sales and calls of AFS debt securities for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended Mach 31,	
Available-for-sale:	**2023**	**2022**
Proceeds from sale and call of securities	$ 8,617	$ 14,558
Gross gains	$ 3	$ 158
Gross losses	(24)	(137)
Net realized (loss) gain	$ (21)	$ 21

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	
March 31, 2023:	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ -	$ -	$ 11,460	$ 11,426
Due after one year through five years	4,035	3,768	9,531	8,616
Due after five years through ten years	17,831	16,329	-	-
Due after ten years	24,064	18,478	-	-
U.S. Government Agency	10,184	8,831	44,792	39,736
Collateralized mortgage obligations	110,180	88,837	67,404	60,546
Mortgage-backed securities - residential	72,690	60,566	41,842	38,088
Mortgage-backed securities - commercial	37,043	32,600	11,399	10,755
	$ 276,027	$ 229,409	$ 186,428	$ 169,167

At March 31, 2023, there were no securities held in the portfolio from any one issuer in an amount greater than 10% of total stockholders' equity other than the United States Government and Government Agencies. All the collateralized mortgage obligations and mortgage-backed securities are issued by United States sponsored entities at March 31, 2023 and December 31, 2022.

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

	March 31, 2023					
	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government Agency	$ 4,281	$ (245)	$ 44,285	$ (7,474)	$ 48,566	$ (7,719)
U.S. Treasury	9,943	(8)	-	-	9,943	(8)
Collateralized mortgage obligations	-	-	149,381	(32,872)	149,381	(32,872)
Mortgage-backed securities - residential	-	-	96,290	(18,600)	96,290	(18,600)
Mortgage-backed securities - commercial	4,185	(55)	36,610	(6,534)	40,795	(6,589)
Municipal securities	-	-	19,310	(5,754)	19,310	(5,754)
Bank subordinated debt securities	6,245	(220)	8,369	(1,131)	14,614	(1,351)
Corporate bonds	-	-	13,867	(770)	13,867	(770)
	$ 24,654	$ (528)	$ 368,112	$ (73,135)	$ 392,766	$ (73,663)

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government Agency	$ 11,407	(1,093)	36,310	(7,616)	47,717	$ (8,709)
U.S. Treasury	9,828	(13)	-	-	9,828	(13)
Collateralized mortgage obligations	16,500	(963)	139,965	(34,962)	156,465	(35,925)
Mortgage-backed securities - residential	5,059	(564)	91,742	(19,348)	96,801	(19,912)
Mortgage-backed securities - commercial	10,052	(1,173)	26,823	(5,300)	36,875	(6,473)
Municipal securities	-	-	18,483	(6,601)	18,483	(6,601)
Bank subordinated debt securities	11,295	(670)	2,619	(381)	13,914	(1,051)
Corporate bonds	13,723	(926)	-	-	13,723	(926)
	$ 77,864	$ (5,402)	$ 315,942	$ (74,208)	$ 393,806	$ (79,610)

As of March 31, 2023, the unrealized losses associated with $133.4 million of investment securities transferred from the AFS portfolio to the HTM portfolio represent unrealized losses since the date of purchase, independent of the impact associated with changes in the cost basis of the securities upon transfer between portfolios.

ASC Topic 326 amended the existing other-than-temporary-impairment guidance for AFS securities, requiring credit losses to be recorded as an allowance rather than through a permanent write-down. When evaluating AFS debt securities under ASC Topic 326, the Company has evaluated whether the decline in fair value is attributed to credit losses or other factors like interest rate risk, using both quantitative and qualitative analyses, including company performance analysis, review of credit ratings, remaining payment terms, prepayment speeds and analysis of macro-economic conditions. Each investment is expected to recover its price depreciations over its holding period as it moves to maturity and the Company has the intent and ability to hold these securities to maturity if necessary. As a result of this evaluation, the Company concluded that no allowance was required.

At December 31, 2022, the Company had $53.7 million of unrealized losses on mortgage backed securities and collateralized mortgage obligations of government sponsored entities having a fair value of $294.6 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase.

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

At December 31, 2022, the Company does not intend to sell debt securities that are in an unrealized loss position and it is not more than likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis. Therefore, management does not consider any investment to be other than temporarily impaired at December 31, 2022.

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 March 31, 2023, the Company did not have any securities pledged under this agreement.

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

As of March 31, 2023, the Company had a total of $206.3 million in deposits under the public funds program and pledged to the State of Florida for these public funds were twenty one corporate bonds with an aggregate fair value of $62.3 million.

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

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

The Company had no borrowing under the BTFP program and had pledged $24.3 million in securities measured at par to the Federal Reserve Bank of Atlanta for the BTFP program.

3. LOANS

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

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

	March 31, 2023		December 31, 2022	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 184,427	11.7 %	$ 185,636	12.3 %
Commercial Real Estate	987,757	62.5 %	970,410	64.4 %
Commercial and Industrial	160,947	10.2 %	126,984	8.4 %
Foreign Banks	97,405	6.1 %	93,769	6.2 %
Consumer and Other	149,410	9.5 %	130,429	8.7 %
Total gross loans	1,579,946	100.0 %	1,507,228	100.0 %
Less: Deferred fees (cost)	448		(110)	
Total loans net of deferred fees (cost)	1,580,394		1,507,338	
Less: Allowance for credit losses	18,887		17,487	
Total net loans	$ 1,561,507		$ 1,489,851	

At March 31, 2023 and December 31, 2022, the Company had $358.8 million and $338.1 million respectively, of commercial real estate and residential mortgage loans pledged as collateral for lines of credit with the FHLB and the Federal Reserve Bank of Atlanta.

The Company was a participant in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") loans. These loans were designed to provide a direct incentive for small businesses to keep their workers on payroll and the funds had to be used towards payroll cost, mortgage interest, rent, utilities and other costs related to COVID-19. These loans are forgivable under specific criteria as determined by the SBA. The Company had PPP loans totaling $308 thousand at March 31, 2023 and $1.3 million at December 31, 2022, which are categorized as commercial and industrial loans.

The Company recognized $1 thousand and $1.0 million in PPP loan fees and interest income during the three months ended March 31, 2023 and 2022, respectively, which is reported under loans, including fees, within the Consolidated Statements of Operations.

Allowance for Credit Losses

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

Qualitative factors used in the ACL methodology include:

- Changes in lending policies, procedures, and strategies
- Changes in international, national, regional, and local conditions
- Changes in nature and volume of portfolio
- Changes in the volume and severity of past due loans and other similar conditions

- Concentration risk
- Changes in the value of underlying collateral
- The effect of other external factors: e.g., competition, legal, and regulatory requirements
- Changes in lending management, among others

ACL for the three months ended March 31, 2023, was estimated under the CECL methodology, and for the three months ended December 31, 2022, and prior periods, it was estimated under the incurred loss model.

Changes in the allowance for credit losses for the three months ended March 31, 2023 and 2022 were as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended March 31, 2023						
Beginning balance	$ 1,352	$ 10,143	$ 4,163	$ 720	$ 1,109	$ 17,487
Cumulative effect of adoption of accounting principle (1)	1,238	1,105	(2,158)	23	858	1,066
Provision for credit losses (2)	221	(795)	318	29	512	285
Recoveries	8	-	44	-	2	54
Charge-offs	-	-	-	-	(5)	(5)
Ending Balance	$ 2,819	$ 10,453	$ 2,367	$ 772	$ 2,476	$ 18,887
Three Months Ended March 31, 2022						
Beginning balance	$ 2,498	$ 8,758	$ 2,775	$ 457	$ 569	$ 15,057
Provision for credit losses	(157)	425	(426)	34	124	-
Recoveries	32	-	6	-	-	38
Charge-offs	(16)	-	-	-	(5)	(21)
Ending Balance	$ 2,357	$ 9,183	$ 2,355	$ 491	$ 688	$ 15,074

(1) Impact of CECL adoption on January 1, 2023
(2) Provision for credit losses excludes $84 thousand reduction due to unfunded commitments included in other liabilities.

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

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
March 31, 2023:						
Allowance for credit losses:						
Individually evaluated for impairment	$ 149	$ -	$ 96	$ -	$ 94	$ 339
Collectively evaluated for impairment	2,670	10,453	2,271	772	2,382	18,548
Balances, end of period	$ 2,819	$ 10,453	$ 2,367	$ 772	$ 2,476	$ 18,887
Loans:						
Individually evaluated for impairment	$ 7,155	$ -	$ 558	$ -	$ 171	$ 7,884
Collectively evaluated for impairment	177,272	987,757	160,389	97,405	149,239	1,572,062
Balances, end of period	$ 184,427	$ 987,757	$ 160,947	$ 97,405	$ 149,410	$ 1,579,946
December 31, 2022:						
Allowance for credit losses:						
Individually evaluated for impairment	$ 155	$ -	$ 41	$ -	$ 98	$ 294
Collectively evaluated for impairment	1,197	10,143	4,122	720	1,011	17,193
Balances, end of period	$ 1,352	$ 10,143	$ 4,163	$ 720	$ 1,109	$ 17,487
Loans:						
Individually evaluated for impairment	$ 7,206	$ 393	$ 82	$ -	$ 196	$ 7,877
Collectively evaluated for impairment	178,430	970,017	126,902	93,769	130,233	1,499,351
Balances, end of period	$ 185,636	$ 970,410	$ 126,984	$ 93,769	$ 130,429	$ 1,507,228

Credit Quality Indicators

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

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

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

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

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 March 31, 2023							
	Term Loans by Origination Year							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Residential real estate								
Pass	$ 2,736	$ 40,571	$ 27,348	$ 7,224	$ 10,119	$ 90,718	$ 5,711	$ 184,427
Total	2,736	40,571	27,348	7,224	10,119	90,718	5,711	184,427
Commercial real estate								
Pass	25,800	342,353	226,774	107,237	81,305	197,272	4,474	985,215
Substandard	-	-	1,842	700	-	-	-	2,542
Total	25,800	342,353	228,616	107,937	81,305	197,272	4,474	987,757
Commercial and industrial								
Pass	35,181	39,173	35,534	9,402	17,571	2,994	19,928	159,783
Substandard	-	-	-	-	486	308	370	1,164
Total	35,181	39,173	35,534	9,402	18,057	3,302	20,298	160,947
Foreign banks								
Pass	47,410	49,995	-	-	-	-	-	97,405
Total	47,410	49,995	-	-	-	-	-	97,405
Consumer and other loans								
Pass	18,948	76,401	49,777	714	501	1,504	1,394	149,239
Substandard	-	-	-	-	-	171	-	171
Total	18,948	76,401	49,777	714	501	1,675	1,394	149,410
Total Loans								
Pass	130,075	548,493	339,433	124,577	109,496	292,488	31,507	1,576,069
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	1,842	700	486	479	370	3,877
Doubtful	-	-	-	-	-	-	-	-
Total	$ 130,075	$ 548,493	$ 341,275	$ 125,277	$ 109,982	$ 292,967	$ 31,877	$ 1,579,946

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

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

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 March 31, 2023 and December 31, 2022 (in thousands):

	Accruing					
As of March 31, 2023	**Current**	**Past Due 30-89 Days**	**Past Due 90 Days or > and Still Accruing**	**Total Accruing**	**Non-Accrual**	**Total Loans**
Residential real estate:						
Home equity line of credit and other	$ 606	$ -	$ -	$ 606	$ -	$ 606
1-4 family residential	128,622	1,156	-	129,778	-	129,778
Condo residential	52,859	1,184	-	54,043	-	54,043
	182,087	2,340	-	184,427	-	184,427
Commercial real estate:						
Land and construction	34,986	-	-	34,986	-	34,986
Multi-family residential	175,358	-	-	175,358	-	175,358
Condo commercial	53,583	-	-	53,583	-	53,583
Commercial property	723,770	-	-	723,770	-	723,770
Leasehold improvements	60	-	-	60	-	60
	987,757	-	-	987,757	-	987,757
Commercial and industrial:						
Secured	153,810	2,343	-	156,153	486	156,639
Unsecured	4,059	249	-	4,308	-	4,308
	157,869	2,592	-	160,461	486	160,947
Foreign banks	97,405	-	-	97,405	-	97,405
Consumer and other	149,239	171	-	149,410	-	149,410
Total	$ 1,574,357	$ 5,103	$ -	$ 1,579,460	$ 486	$ 1,579,946

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

Nonaccrual Status

The following table includes the amortized cost basis of loans on nonaccrual status and loans past due over 90 days and still accruing as of March 31, 2023:

	March 31, 2023			
	Nonaccrual Loans With No Related Allowance	Nonaccrual Loans With Related Allowance	Total Nonaccruals	Loans Past Due Over 90 Days and Still Accruing
Residential real estate	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Commercial and industrial	-	486	486	-
Consumer and other	-	-	-	-
	$ -	$ 486	$ 486	$ -

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

Accrued interest receivable is excluded from the estimate of credit losses. There was no interest income recognized attributable to nonaccrual loans outstanding during the three months ended March 31, 2023 and 2022. Interest income on these loans for the three months ended March 31, 2023 and 2022, would have been approximately $2 and $0 thousand, respectively, had these loans performed in accordance with their original terms.

Collateral-Dependent Loans

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

Impaired Loans

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

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

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

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

	Three Months Ended March 31, 2022
Residential real estate	$ 8,181
Commercial real estate	649
Commercial and industrial	137
Consumer and other	220
Total	$ 9,187

Interest income recognized on impaired loans for the three months ended March 31, 2022 was $91 thousand.

Loan Modifications to Borrowers Experiencing Financial Difficulties

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

4. INCOME TAXES

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

	Three Months Ended March 31,	
	2023	2022
Current:		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred:		
Federal	1,472	1,442
State	409	416
Total deferred	1,881	1,858
Total tax expense	$ 1,881	$ 1,858

The actual income tax expense for the three months ended March 31, 2023 and 2022 differs from the statutory tax expense for the period (computed by applying the U.S. federal corporate tax rate of 21% for 2023 and 2022 to income before provision for income taxes) as follows (in thousands):

	Three Months Ended March 31,	
	2023	**2022**
Federal taxes at statutory rate	$ 1,615	$ 1,409
State income taxes, net of federal tax benefit	334	289
Bank owned life insurance	(68)	(67)
Other, net	-	227
Total tax expense	$ 1,881	$ 1,858

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

	March 31, 2023	December 31, 2022
Deferred tax assets:		
Net operating loss	$ 19,998	$ 21,720
Allowance for credit losses	4,787	4,432
Lease liability	3,460	3,648
Unrealized losses on available for sale securities	14,281	15,193
Deferred loan fees	-	-
Depreciable property	170	158
Stock option compensation	406	373
Accruals	234	723
Deferred tax assets:	43,336	46,247
Deferred tax liability:		
Deferred loan cost	(113)	(28)
Lease right of use asset	(3,460)	(3,648)
Deferred expenses	(165)	(175)
Other, net	(31)	(36)
Deferred tax liability	(3,769)	(3,887)
Net deferred tax assets	$ 39,567	$ 42,360

The Company has approximately $75.0 million of federal and $97.7 million of state net operating loss carryforwards expiring in various amounts between 2031 and 2036 and which are limited to offset, to the extent permitted, future taxable earnings of the Company.

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

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

For the three months ended March 31, 2023 and 2022, the Company did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. Additionally, no interest or penalties were recorded as a result of tax uncertainties.

5. OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

	March 31, 2023	December 31, 2022
Commitments to grant loans and unfunded lines of credit	$ 81,506	$ 95,461
Standby and commercial letters of credit	3,542	4,320
Total	$ 85,048	$ 99,781

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

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

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

6. DERIVATIVES

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

The Company enters into interest rate swaps with its loan customers. The Company had 17 and 15 interest rate swaps with loan customers with an aggregate notional amount of $40.9 million and $33.9 million at March 31, 2023 and December 31, 2022, respectively. These interest rate swaps mature between 2025 and 2051. The Company entered into corresponding and offsetting derivatives with third parties. The fair value of liability on these derivatives requires the Company to provide the counterparty with funds to be held as collateral which the Company reports as other assets under the Consolidated Balance Sheets. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

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

	Notional Amount	Collateral Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
March 31, 2023:					
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	$ 40,896	$ 1,287	Other assets/Other liabilities	$ 4,673	$ 4,673
December 31, 2022:					
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	$ 33,893	$ 1,278	Other assets/Other liabilities	$ 5,011	$ 5,011

7. FAIR VALUE MEASUREMENTS

Determination of Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

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

Items Measured at Fair Value on a Recurring Basis

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

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

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

	March 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities available for sale:								
U.S. Government Agency	$ -	$ 8,831	$ -	$ 8,831	$ -	$ 8,655	$ -	$ 8,655
Collateralized mortgage obligations	-	88,837	-	88,837	-	95,541	-	95,541
Mortgage-backed securities - residential	-	60,566	-	60,566	-	60,879	-	60,879
Mortgage-backed securities - commercial	-	32,600	-	32,600	-	27,954	-	27,954
Municipal securities	-	19,310	-	19,310	-	18,483	-	18,483
Bank subordinated debt securities	-	15,497	-	15,497	-	14,919	-	14,919
Corporate bonds	-	3,768	-	3,768	-	3,709	-	3,709
Total	-	229,409	-	229,409	-	230,140	-	230,140
Derivative assets	-	4,673	-	4,673	-	5,011	-	5,011
Total assets at fair value	$ -	$ 234,082	$ -	$ 234,082	$ -	$ 235,151	$ -	$ 235,151
Derivative liabilities	$ -	$ 4,673	$ -	$ 4,673	$ -	$ 5,011	$ -	$ 5,011
Total liabilities at fair value	$ -	$ 4,673	$ -	$ 4,673	$ -	$ 5,011	$ -	$ 5,011

Items Measured at Fair Value on a Non-recurring Basis

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

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

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

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

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

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

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

Items Not Measured at Fair Value

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

	Carrying Amount	Fair Value Hierarchy Level 1	Level 2	Level 3	Fair Value Amount
March 31, 2023:					
Financial Assets:					
Cash and due from banks	$ 5,586	$ 5,586	$ -	$ -	$ 5,586
Interest-bearing deposits in banks	$ 57,665	$ 57,665	$ -	$ -	$ 57,665
Investment securities held to maturity, net	$ 186,428	$ -	$ 169,167	$ -	$ 169,167
Loans held for investment, net	$ 1,561,507	$ -	$ -	$ 1,518,178	$ 1,518,178
Accrued interest receivable	$ 8,216	$ -	$ 1,248	$ 6,968	$ 8,216
Financial Liabilities:					
Demand deposits	$ 633,606	$ 633,606	$ -	$ -	$ 633,606
Money market and savings accounts	$ 900,478	$ 900,478	$ -	$ -	$ 900,478
Interest-bearing checking accounts	$ 50,573	$ 50,573	$ -	$ -	$ 50,573
Time deposits	$ 245,805	$ -	$ -	$ 241,263	$ 241,263
FHLB advances	$ 120,000	$ -	$ 118,852	$ -	$ 118,852
Accrued interest payable	$ 567	$ -	$ 327	$ 240	$ 567
December 31, 2022:					
Financial Assets:					
Cash and due from banks	$ 6,605	$ 6,605	$ -	$ -	$ 6,605
Interest-bearing deposits in banks	$ 47,563	$ 47,563	$ -	$ -	$ 47,563
Investment securities held to maturity	$ 188,699	$ -	$ 169,088	$ -	$ 169,088
Loans held for investment, net	$ 1,489,851	$ -	$ -	$ 1,436,877	$ 1,436,877
Accrued interest receivable	$ 7,546	$ -	$ 1,183	$ 6,363	$ 7,546
Financial Liabilities:					
Demand deposits	$ 629,776	$ 629,776	$ -	$ -	$ 629,776
Money market and savings accounts	$ 915,853	$ 915,853	$ -	$ -	$ 915,853
Interest-bearing checking accounts	$ 66,675	$ 66,675	$ -	$ -	$ 66,675
Time deposits	$ 216,977	$ -	$ -	$ 211,406	$ 211,406
FHLB advances	$ 46,000	$ -	$ 44,547	$ -	$ 44,547
Accrued interest payable	$ 229	$ -	$ 92	$ 137	$ 229

8. STOCKHOLDERS' EQUITY

Common Stock

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

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

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

The Company issued 121,627 shares of Class A common stock to employees and directors as restricted stock awards pursuant to the Company's 2015 equity incentive plan in March 2023.

During the first quarter of 2023, the Company repurchased 500,000 shares of USCB Financial Holdings Inc at a weighted average price per share of $11.74. The aggregate purchase price for these transactions was approximately $5.9 million, including transaction costs. These repurchases were made through open market purchases pursuant to the Company's publicly announced repurchase program. As of March 31, 2023, 250,000 shares remained authorized for repurchase under this program.

Shares of the Company's Class A common stock issued and outstanding as of March 31, 2023 and December 31, 2022 were 19,622,380 and 20,000,753, respectively.

Dividends

Declaration of dividends by the Board is required before dividend payments are made. No dividends were approved by the Board for the common stock classes for the three months ended March 31, 2023 and 2022. Additionally, there were no dividends declared and unpaid as of March 31, 2023 and 2022.

The Company and the Bank exceeded all regulatory capital requirements and remained significantly above "well-capitalized" guidelines as of December 31, 2022 and March 31, 2023. At March 31, 2023, the total risk-based capital ratios for the Company and the Bank were 13.20% and 13.12%, respectively.

9. EARNINGS PER SHARE

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

The following table reflects the calculation of net income available to common stockholders for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Net Income	$ 5,809	$ 4,854
Less: Preferred stock dividends	-	-
Net income available to common stockholders	$ 5,809	$ 4,854

The following table reflects the calculation of basic and diluted earnings per common share class for the three months ended March 31, 2023 and 2022 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2023	2022
	Class A	Class A
Basic EPS		
Numerator:		
Net income available to common shares	$ 5,809	$ 4,854
Denominator:		
Weighted average shares outstanding	19,855,409	19,994,953
Earnings per share, basic	$ 0.29	$ 0.24
Diluted EPS		
Numerator:		
Net income available to common shares	$ 5,809	$ 4,854
Denominator:		
Weighted average shares outstanding for basic EPS	19,855,409	19,994,953
Add: Dilutive effects of assumed exercises of stock options	85,197	114,830
Weighted avg. shares including dilutive potential common shares	19,940,606	20,109,783
Earnings per share, diluted	$ 0.29	$ 0.24
Anti-dilutive stock options excluded from diluted EPS	572,500	-

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 is designed to provide a better understanding of the consolidated financial condition and results of operations of the Company and the Bank, its wholly owned subsidiary, for the quarter and three months ended March 31, 2023. This discussion and analysis is best read in conjunction with the unaudited consolidated financial statements and related footnotes included in this quarterly report on Form 10-Q and the audited consolidated financial statements and related footnotes included in the Annual Report on Form 10-K/A ("2022 Form 10-K/A") filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2022.

This discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections entitled "Forward-Looking Statements" and Item 1A "Risk Factors" below and in the 2022 Form 10-K filed with the SEC which is available at the SEC's website www.sec.gov.

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

Forward-Looking Statements

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

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

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

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations. Therefore, you are cautioned not to place undue reliance on any forward-looking statements. Further, forward-looking statements included in this Form 10-Q are made only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events, unless required to do so under the federal securities laws. You should also review the risk factors described in the reports the Company filed or will file with the SEC and, for periods prior to the completion of the bank holding company reorganization in December 2021, the Bank filed with the FDIC.

Overview

The Company reported net income of $5.8 million or $0.29 per diluted share for Class A common stock for the three months ended March 31, 2023, compared with net income of $4.9 million or $0.24 per diluted share for Class A common stock, respectively, for the same period in 2022.

During the first quarter of 2023, the Company repurchased 500,000 shares of USCB Financial Holdings Inc at a weighted average price per share of $11.74. The aggregate purchase price for these transactions was approximately $5.9 million, including transaction costs. These repurchases were made through open market purchase pursuant to the Company’s publicly announced repurchase program. As of March 31, 2023, 250,000 shares remain authorized for repurchase under this program.

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

Unless otherwise stated, all period comparisons in the bullet points below are calculated for the quarter ended March 31, 2023 compared to the quarter ended March 31, 2022 and annualized where appropriate:

- Net interest income increased $1.6 million or 11.3% to $16.0 million from $14.4 million for the quarter ended March 31, 2022.
- Net interest margin (“NIM”) was 3.22% for both quarters ended at March 31, 2023 and 2022.
- Total assets were $2.2 billion at March 31, 2023, representing an increase of $196.6 million or 10.0% from March 31, 2022 and an increase of $78.0 million or 15.2% annualized from December 31, 2022.
- Total loans were $1.6 billion at March 31, 2023, representing an increase of $322.0 million or 25.6% from March 31, 2022 and an increase of $73.1 million or 19.7% annualized from December 2022.
- Total deposits were $1.8 billion at March 31, 2023, representing an increase of $117.2 million or 6.8% from March 31, 2022 and $1.2 million from December 31, 2022.
- Annualized return on average assets was 1.11% compared to 1.03% at March 31, 2022.
- Annualized return on average stockholders’ equity was 12.85% compared to 9.75% for quarter ended March 31, 2022.
- The allowance for credit losses to total loans was 1.20% for March 31, 2023 and 1.16% for December 31, 2022. ACL was calculated under the CECL methodology for the first quarter 2023 and the incurred loss methodology for the first quarter 2022.
- Non-performing loans to total loans was 0.03% at March 31, 2023 compared to 0.0% at December 31, 2022.
- At March 31, 2023, the total risk-based capital ratios for the Company and the Bank were 13.20% and 13.12%, respectively.
- Tangible book value per common share of $9.37 as of March 31, 2023 was negatively affected by $2.14 due to after tax unrealized security losses of $42.1 million at March 31, 2023. At March 31, 2022, tangible book value of $9.60 was negatively affected by $0.97 due to $19.5 million after tax unrealized security losses. See “Reconciliation and

Management Explanation for Non-GAAP Financial Measures" for a reconciliation of this non-GAAP financial measure.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared based on the application of U.S. GAAP, the most significant of which are described in Note 1 "Summary of Significant Accounting Policies" in the Company's 2022 Form 10-K/A. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions, and judgments based on available information. These estimates, assumptions, and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statements. In particular, management has identified accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical in understanding our financial statements. Management has presented the application of these policies to the Audit and Risk Committee of our Board.

Allowance for Credit Losses

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

As of March 31, 2023, our ACL included a concentration of commercial real estate loans. To assess the potential impact of changes in qualitative factors related to these loans, management performed a sensitivity analysis. Specially we evaluated the impact of two scenarios: (1) an increase in qualitative factors to simulate a maximum loss scenario and (2) a reduction to all qualitative factors to zero. Under the first scenario, the ACL increased by $4.6 million or 24.2% and under the second scenario the ACL was reduced by $1.1 million or 6.3%. This sensitivity analysis provides a hypothetical result to assess the sensitivity of the ACL and does not represent a change in management's judgement.

Income Taxes

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

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

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

Non-GAAP Financial Measures

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

Segment Reporting

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

Results of Operations

General

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

	March 31, 2023	December 31, 2022
Consolidated Balance Sheets:		
Total assets	$ 2,163,821	$ 2,085,834
Total loans [(1)]	$ 1,580,394	$ 1,507,338
Total deposits	$ 1,830,462	$ 1,829,281
Total stockholders' equity	$ 183,858	$ 182,428

(1) Loan amounts include deferred fees/costs.

	Three Months Ended March 31,	
	2023	2022
Consolidated Statements of Operations:		
Net interest income before provision for credit losses	$ 15,997	$ 14,379
Total non-interest income	$ 2,070	$ 1,945
Total non-interest expense	$ 10,176	$ 9,612
Net income	$ 5,809	$ 4,854
Profitability:		
Efficiency ratio	56.32%	58.88%
Net interest margin	3.22%	3.22%

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 March 31, 2023 compared to the three months ended March 31, 2022

Net income increased to $5.8 million for the three months ended March 31, 2023 from $4.9 million for the same period in 2022 due to higher interest income generated by a larger loan portfolio and higher yields.

Net Interest Income

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

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

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

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

	Three Months Ended March 31,					
	2023			2022		
	Average Balance	Interest	Yield/Rate [1]	Average Balance	Interest	Yield/Rate [1]
Assets						
Interest-earning assets:						
Loans [2]	$ 1,547,393	$ 19,711	5.17%	$ 1,211,432	$ 12,982	4.35%
Investment securities [3]	421,717	2,286	2.20%	510,257	2,329	1.85%
Other interest-earnings assets	43,084	382	3.60%	90,137	31	0.14%
Total interest-earning assets	2,012,194	22,379	4.51%	1,811,826	15,342	3.43%
Non-interest-earning assets	108,024			101,658		
Total assets	$ 2,120,218			$ 1,913,484		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing checking	$ 58,087	43	0.30%	$ 64,436	16	0.10%
Saving and money market deposits	897,061	4,785	2.16%	736,134	551	0.30%
Time deposits	224,730	1,057	1.91%	223,274	259	0.47%
Total interest-bearing deposits	1,179,878	5,885	2.02%	1,023,844	826	0.33%
FHLB advances and other borrowings	61,600	497	3.27%	36,011	137	1.54%
Total interest-bearing liabilities	1,241,478	6,382	2.08%	1,059,855	963	0.37%
Non-interest-bearing demand deposits	664,369			626,400		
Other non-interest-bearing liabilities	31,000			25,369		
Total liabilities	1,936,847			1,711,624		
Stockholders' equity	183,371			201,860		
Total liabilities and stockholders' equity	$ 2,120,218			$ 1,913,484		
Net interest income		$ 15,997			$ 14,379	
Net interest spread [4]			2.43%			3.07%
Net interest margin [5]			3.22%			3.22%

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

Three months ended March 31, 2023 compared to the three months ended March 31, 2022

Net interest income before the provision for credit losses was $16.0 million for the three months ended March 31, 2023, an increase of $1.6 million or 11.3%, from $14.4 million for the same period in 2022. This increase was primarily attributable to higher income from a larger loan portfolio combined with an increase in the weighted average loan yield.

Included with loan interest income are PPP interest and loan fees totaling $1 thousand and $1.0 million for the three months ended March 31, 2023 and 2022, respectively. PPP loan fees are recognized upon loan forgiveness by the SBA.

Net interest margin was at 3.22% for both the quarters ended March 31, 2023 and 2022. The increase in loan yields was partially offset by higher interest-bearing liabilities cost. Increase in deposit cost was mainly attributed to current interest market conditions.

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Provision for Credit Losses

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

Three months ended March 31, 2023 compared to the three months ended March 31, 2022

The provision for credit loss was $201 thousand for the three months ended March 31, 2023 compared to no provision recorded for the same period in 2022. The primary driver of the provision expense in 2023 was attributable to loan growth.

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 March 31,	
	2023	2022
Service fees	$ 1,205	$ 900
Gain (loss) on sale of securities available for sale, net	(21)	21
Gain on sale of loans held for sale, net	347	334
Loan settlement	-	161
Other non-interest income	539	529
Total non-interest income	$ 2,070	$ 1,945

Three months ended March 31, 2023 compared to the three months ended March 31, 2022

Non-interest income for the three months ended March 31, 2023 increased $125 thousand or 6.4%, compared to the same period in 2022. This increase was primarily driven by a $305 thousand increase in fees related to SWAP loans. For the period ended March 31, 2022 the Company recognized $161 thousand interest recovery from a prior lending customer of the Bank. This payment reflected the final payment and settlement of lien judgements against the customer.

Non-Interest Expense

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

	Three Months Ended March 31,	
	2023	2022
Salaries and employee benefits	$ 6,377	$ 5,875
Occupancy	1,299	1,270
Regulatory assessment and fees	224	213
Consulting and legal fees	358	517
Network and information technology services	478	387
Other operating	1,440	1,350
Total non-interest expense	$ 10,176	$ 9,612

Three months ended March 31, 2023 compared to the three months ended March 31, 2022

Non-interest expense for the three months ended March 31, 2023 increased $564 thousand or 5.9%, compared to the same period in 2022. The increase was primarily driven by higher salaries and employee benefits expense due to new hires and increased salary compensation.

Provision for Income Tax

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

Three months ended March 31, 2023 compared to the three months ended March 31, 2022

Income tax expense for both the quarters ended March 31, 2023 and 2022 was $1.9 million. The effective tax rate for the three months ended March 31, 2023 was 24.5% compared to 27.7% for the same period in 2022. The Company's effective tax rate in the quarter ended March 31, 2022 was higher primarily because the Company recorded a one-time adjustment of $300 thousand to deferred tax assets which increased the income tax provision.

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

Analysis of Financial Condition

Total assets at March 31, 2023 were $2.2 billion, an increase of $78.0 million, or 3.7%, over total assets of $2.1 billion at December 31, 2022. Total loans increased $73.1 million, or 4.8%, to $1.6 billion at March 31, 2023 compared to $1.5 billion at December 31, 2022. Total deposits increased by $1.2 million to $1.8 billion at March 31, 2023 compared to December 31, 2022.

Investment Securities

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

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

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

ASC Topic 326 amended the existing other-than-temporary-impairment guidance for AFS securities, requiring credit losses to be recorded as an allowance rather than through a permanent write-down. When evaluating AFS debt securities under ASC Topic 326, the Company has evaluated whether the decline in fair value is attributed to credit losses or other factors like interest rate risk, using both quantitative and qualitative analyses, including company performance analysis, review of credit ratings, remaining payment terms, prepayment speeds and analysis of macro-economic conditions. Each investment is expected to recover its price depreciations over its holding period as it moves to maturity and the Company has the intent and ability to hold these securities to maturity if necessary. As a result of this evaluation, the Company concluded that no allowance was appropriate.

AFS and HTM investment securities decreased $3.0 million or 1.0% to $415.8 million at March 31, 2023 from $418.8 million at December 31, 2022. Investment securities decreased due to payments received and sales of securities during the quarter. 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 March 31,

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2023, investment securities with a market value of $83.5 million were pledged to secure public deposits and Fed Borrowing Program. 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):

	March 31, 2023		December 31, 2022	
Available-for-sale:	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government Agency	$ 10,184	$ 8,831	$ 10,177	$ 8,655
Collateralized mortgage obligations	110,180	88,837	118,951	95,541
Mortgage-backed securities - residential	72,690	60,566	73,838	60,879
Mortgage-backed securities - commercial	37,043	32,600	32,244	27,954
Municipal securities	25,064	19,310	25,084	18,483
Bank subordinated debt securities	16,831	15,497	15,964	14,919
Corporate bonds	4,035	3,768	4,037	3,709
	$ 276,027	$ 229,409	$ 280,295	$ 230,140
Held-to-maturity:				
U.S. Government Agency	$ 44,792	$ 39,736	$ 44,914	$ 39,062
U.S. Treasury	9,951	9,943	9,841	9,828
Collateralized mortgage obligations	67,404	60,546	68,727	60,925
Mortgage-backed securities - residential	41,842	38,088	42,685	38,483
Mortgage-backed securities - commercial	11,399	10,755	11,442	10,777
Corporate bonds	11,040	10,099	11,090	10,013
	$ 186,428	$ 169,167	$ 188,699	$ 169,088

The following table shows the weighted average yields, categorized by contractual maturity, for investment securities as of March 31, 2023 (in thousands, except ratios):

	Within 1 year		After 1 year through 5 years		After 5 years through 10 years		After 10 years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
Available-for-sale:										
U.S. Government Agency	$ -	0.00%	$ -	0.00%	$ 2,352	3.18%	$ 7,832	2.04%	$ 10,184	2.30%
U.S. Treasury	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	110,180	1.40%	110,180	1.40%
MBS - residential	-	0.00%	-	0.00%	-	0.00%	72,690	1.67%	72,690	1.67%
MBS - commercial	-	0.00%	-	0.00%	-	0.00%	37,043	2.17%	37,043	2.17%
Municipal securities	-	0.00%	-	0.00%	1,000	2.05%	24,064	1.72%	25,064	1.74%
Bank subordinated debt securities	-	0.00%	-	0.00%	16,831	4.99%	-	0.00%	16,831	4.99%
Corporate bonds	-	0.00%	4,035	2.50%	-	0.00%	-	0.00%	4,035	2.50%
	$ -		$ 4,035		$ 20,183		$ 251,809		$ 276,027	1.87%
Held-to-maturity:										
U.S. Government Agency	$ -	0.00%	$ 7,909	1.03%	$ 20,346	1.45%	$ 16,537	1.98%	$ 44,792	1.57%
U.S. Treasury	9,951	4.44%	-	0.00%	-	0.00%	-	0.00%	9,951	4.44%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	67,404	1.69%	67,404	1.69%
MBS - residential	-	0.00%	4,526	1.84%	5,941	1.74%	31,375	2.24%	41,842	2.12%
MBS - commercial	-	0.00%	-	0.00%	3,084	1.62%	8,315	1.69%	11,399	1.67%
Corporate bonds	1,509	2.25%	9,531	2.79%	-	0.00%	-	0.00%	11,040	2.72%
	$ 11,460		$ 21,966		$ 29,371		$ 123,631		$ 186,428	1.96%

Loans

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

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

	March 31, 2023		December 31, 2022	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	$ 184,427	11.7 %	$ 185,636	12.3 %
Commercial Real Estate	987,757	62.5 %	970,410	64.4 %
Commercial and Industrial	160,947	10.2 %	126,984	8.4 %
Foreign Banks	97,405	6.1 %	93,769	6.2 %
Consumer and Other	149,410	9.5 %	130,429	8.7 %
Total gross loans	1,579,946	100.0 %	1,507,228	100.0 %
Less: Deferred fees (cost)	448		(110)	
Total loans net of deferred fees (cost)	1,580,394		1,507,338	
Less: Allowance for credit losses	18,887		17,487	
Total net loans	$ 1,561,507		$ 1,489,851	

Total loans increased by $73.1 million or 4.8% at March 31, 2023 compared to December 31, 2022. The commercial and industrial, and to a lesser extent, consumer and other loan and commercial real estate segments had the most significant growth partially offset by declines in the residential real estate loan segment.

Our loan portfolio continues to grow, with commercial real estate lending as the primary focus which represented approximately 62.5% of the total gross loan portfolio as of March 31, 2023. 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 long-term relationships with members of our senior management team or our relationship managers that date back to former institutions.

From a liquidity perspective, our loan portfolio provides us with additional liquidity due to repayments or unexpected prepayments. The following table shows maturities and sensitivity to interest rate changes for the loan portfolio at March 31, 2023 (in thousands):

	Due in 1 year or less	Due in 1 to 5 years	Due after 5 to 15 years	Due after 15 years	Total
Residential Real Estate	$ 15,740	$ 7,809	$ 84,011	$ 76,867	$ 184,427
Commercial Real Estate	92,411	155,604	729,841	9,901	987,757
Commercial and Industrial	8,392	30,996	80,925	40,634	160,947
Foreign Banks	97,405	-	-	-	97,405
Consumer and Other	3,424	1,992	10,980	133,014	149,410
Total gross loans	$ 217,372	$ 196,401	$ 905,757	$ 260,416	$ 1,579,946
Interest rate sensitivity:					
Fixed interest rates	$ 186,433	$ 105,797	$ 176,867	$ 155,007	$ 624,104
Floating or adjustable rates	30,939	90,604	728,890	105,409	955,842
Total gross loans	$ 217,372	$ 196,401	$ 905,757	$ 260,416	$ 1,579,946

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

As of March 31, 2023, approximately 60.5% of the loans have adjustable/variable rates and 39.5% of the loans have fixed rates. The adjustable/variable rate loans re-price to different benchmarks and tenors in different periods of time. By contractual characteristics, there are no material concentrations on anniversary repricing. Additionally, it is important to note that most of our loans have interest rate floors. This embedded option protects the Company from a decrease in interest rates 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):

	March 31, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$ 184,427	$ -	$ -	$ -	$ 184,427
Commercial Real Estate	985,214	-	2,542	-	987,756
Commercial and Industrial	159,783	-	1,164	-	160,947
Foreign Banks	97,405	-	-	-	97,405
Consumer and Other	149,239	-	171	-	149,410
	$ 1,576,068	$ -	$ 3,877	$ -	$ 1,579,945

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

Non-Performing Assets

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

	March 31, 2023	December 31, 2022
Total non-performing loans	$ 486	$ -
Other real estate owned	-	-
Total non-performing assets	$ 486	$ -
Asset quality ratios: (1)		
Allowance for credit losses to total loans	1.20%	1.16%
Allowance for credit losses to non-performing loans	3886%	- %
Non-performing loans to total loans	0.03%	- %

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

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

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

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

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

Allowance for Credit Losses

On January 1, 2023, the Company adopted FASB ASU 2016-13, which introduced the current expected credit losses (CECL) methodology and required us to estimate all expected credit losses over the remaining life of our loan portfolio. Accordingly, the ACL represents an amount that, in management's evaluation, is adequate to provide coverage for all expected future credit losses on outstanding loans. Additionally, qualitative adjustments are made to the ACL when, based on management's judgment, there are factors impacting the allowance estimate not considered by the quantitative calculations. See Note 3 "Loans" for more information on the allowance for credit losses on this Form 10-Q.

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

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

[(1)] Impact of CECL adoption as of January 1, 2023

[(2)] Provision for credit losses excludes $84 thousand reduction due to unfunded commitments included in other liabilities.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Foreign Banks	Consumer and Other	Total
Three Months Ended March 31, 2022						
Beginning balance	$ 2,498	$ 8,758	$ 2,775	$ 457	$ 569	$ 15,057
Provision for credit losses	(157)	425	(426)	34	124	-
Recoveries	32	-	6	-	-	38
Charge-offs	(16)	-	-	-	(5)	(21)
Ending Balance	$ 2,357	$ 9,183	$ 2,355	$ 491	$ 688	$ 15,074
Average loans	$ 198,162	$ 739,732	$ 139,781	$ 59,667	$ 74,090	$ 1,211,432
Net charge-offs to average loans	-0.03%	-	-0.02%	-	0.03%	-0.01%

Bank-Owned Life Insurance

As of March 31, 2023, the combined cash surrender value of all bank-owned life insurance ("BOLI") policies was $43.0 million. Changes in cash surrender value are recorded to non-interest income in the unaudited Consolidated Statements of Operations. The Company had BOLI policies with five insurance carriers. The Company is the beneficiary of these policies.

Deposits

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

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

	Three Months Ended March 31,			
	2023		2022	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest-bearing checking	$ 664,369	0.00%	$ 626,400	0.00%
Interest-bearing checking	58,087	0.30%	64,436	0.10%
Money market and savings deposits	897,061	2.16%	736,134	0.30%
Time deposits	224,730	1.91%	223,274	0.47%
Total	$ 1,844,247	1.29%	$ 1,650,244	0.20%

The Company has a granular deposit portfolio with outstanding balances comprised of 54% in commercial deposits, 35% personal deposits and 11% public funds, which are partially collateralized. The Company has approximately 19 thousand deposits accounts with the majority in personal accounts, approximately 12 thousand or 64.4%. The total amount of uninsured deposits adjusted by the collateralized portion of public funds is 56% at March 31, 2023, a decrease of 3% compared to December 31, 2022 and below the 2022 average. The estimated average account size of our deposit portfolio is $96 thousand as of March 31, 2023. The Company also offers Insured Cash Sweep (“ICS”) and Certificate of Deposit Account Registry Service (“CDARS”) deposit products to fully insure our clients.

The uninsured deposits are estimated based on the FDIC deposit insurance limit of $250 thousand for all deposit accounts at the Company per account holder. Total estimated uninsured deposits adjusted for collateralized public deposits were $1.0 billion and $1.1 billion at March 31, 2023 and December 31, 2022, respectively.

The following table shows scheduled maturities of uninsured time deposits as of March 31, 2023 (in thousands):

	March 31, 2023
Three months or less	$ 21,116
Over three through six months	26,996
Over six though twelve months	29,135
Over twelve months	23,038
	$ 100,285

Other Liabilities

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

As of March 31, 2023 escrow balances totaled $8.3 million compared to $3.5 million at December 31, 2022.

Borrowings

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

As of March 31, 2023, we had $120.0 million of fixed-rate advances outstanding from the FHLB with a weighted average rate of 4.15%. Maturity dates for the advances are between third quarter 2023 and third quarter 2025 as detailed in the table below.

The following table presents the FHLB fixed rate advances as of March 31, 2023 (in thousands):

Interest Rate	Type of Rate	Maturity Date	Amount
2.05%	Fixed	March 27, 2025	$ 10,000
1.07%	Fixed	July 18, 2025	6,000
1.04%	Fixed	July 30, 2024	5,000
0.81%	Fixed	August 17, 2023	5,000
5.07%	Daily	December 22, 2023	83,000
3.76%	Fixed	January 24, 2028	11,000
			$ 120,000

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 March 31, 2023, 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 unaudited Consolidated Balance Sheets.

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

	March 31, 2023	December 31, 2022
Commitments to grant loans and unfunded lines of credit	$ 81,506	$ 95,461
Standby and commercial letters of credit	3,542	4,320
Total	$ 85,048	$ 99,781

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

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

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

Asset and Liability Management Committee

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

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

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

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

Income simulations are used to assess the impact of changing rates on earnings under different rates scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes (flat and 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 ALCO model, as of March 31, 2023, we were a liability sensitive Bank for year one modeling and asset sensitive for year two modeling. Asset sensitivity indicates that our assets generally reprice faster than our liabilities, which results in a favorable impact to net interest income when market interest rates increase. Liability sensitivity indicates that our liabilities generally reprice faster than our assets, which results in a favorable impact to net interest income when market interest rates decrease. Many assumptions are used to calculate the impact of interest rate variations on our net interest income, such as asset prepayment speeds, non-maturity deposit price sensitivity, pricing correlations, deposit truncations and decay rates, and key interest rate drivers.

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

According to our model, as of March 31, 2023, NIM most likely will decrease for year one and should increase for year two under static rate scenarios (-400 basis points or +400 basis points). For the static forecast in year one, the estimated NIM will decrease from the base case scenario to a +400 basis points scenario. Additionally, utilizing an EVE approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. According to our balance sheet composition, and as expected, our model stipulates that an increase of rates will have a negative impact on the EVE and lower rates and positive impact. Results and analysis are presented quarterly to the ALCO, and strategies are defined.

Liquidity

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

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

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

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

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

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

We expect funds to be available from several basic banking activity sources, including the core deposit base, the repayment and maturity of loans and investment security cash flows. Other potential funding sources include federal funds purchased, brokered certificates of deposit, listing certificates of deposit, The Bank Term Funding Program, and borrowings from the FHLB. Accordingly, our liquidity resources were adequate to fund loans and meet other cash needs as necessary.

Capital Adequacy

As of March 31, 2023, the Bank was well capitalized under the FDIC's prompt corrective action framework. We also follow the capital conservation buffer framework, and as of March 31, 2023, we exceeded the capital conversation buffer in all capital ratios, according to our actual ratios. The following table presents the capital ratios for the Bank at the dates indicated (in thousands, except ratios).

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2023						
Total risk-based capital	$ 218,621	13.12 %	$ 133,293	8.00 %	$ 166,616	10.00 %
Tier 1 risk-based capital	$ 199,301	11.96 %	$ 99,970	6.00 %	$ 133,293	8.00 %
Common equity tier 1 capital	$ 199,301	11.96 %	$ 74,977	4.50 %	$ 108,301	6.50 %
Leverage ratio	$ 199,301	9.30 %	$ 85,760	4.00 %	$ 107,201	5.00 %
December 31, 2022:						
Total risk-based capital	$ 216,693	13.58 %	$ 127,616	8.00 %	$ 159,520	10.00 %
Tier 1 risk-based capital	$ 198,909	12.47 %	$ 95,712	6.00 %	$ 127,616	8.00 %
Common equity tier 1 capital	$ 198,909	12.47 %	$ 71,784	4.50 %	$ 103,688	6.50 %
Leverage ratio	$ 198,909	9.56 %	$ 83,210	4.00 %	$ 104,012	5.00 %

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

Impact of Inflation

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

Recently Issued Accounting Pronouncements

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

Reconciliation and Management Explanation of Non-GAAP Financial Measures

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

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

	As of or For the Three Months Ended				
	3/31/2023	12/31/2022	9/30/2022	6/30/2022	3/31/2022
Pre-tax pre-provision ("PTPP") income:					
Net income	$ 5,809	$ 4,434	$ 5,558	$ 5,295	$ 4,854
Plus: Provision for income taxes	1,881	1,415	1,963	1,708	1,858
Plus: Provision for credit losses	201	880	910	705	-
PTPP income	$ 7,891	$ 6,729	$ 8,431	$ 7,708	$ 6,712
PTPP return on average assets:					
PTPP income	$ 7,891	$ 6,729	$ 8,431	$ 7,708	$ 6,712
Average assets	$ 2,120,218	$ 2,051,867	$ 2,026,791	$ 1,968,381	$ 1,913,484
PTPP return on average assets (1)	1.51%	1.30%	1.65%	1.57%	1.42%
Operating net income:					
Net income	$ 5,809	$ 4,434	$ 5,558	$ 5,295	$ 4,854
Less: Net gains (losses) on sale of securities	(21)	(1,989)	(558)	(3)	21
Less: Tax effect on sale of securities	5	504	141	1	(5)
Operating net income	$ 5,825	$ 5,919	$ 5,975	$ 5,297	$ 4,838
Operating PTPP income:					
PTPP income	$ 7,891	$ 6,729	$ 8,431	$ 7,708	$ 6,712
Less: Net gains (losses) on sale of securities	(21)	(1,989)	(558)	(3)	21
Operating PTPP income	$ 7,912	$ 8,718	$ 8,989	$ 7,711	$ 6,691
Operating PTPP return on average assets:					
Operating PTPP income	$ 7,912	$ 8,718	$ 8,989	$ 7,711	$ 6,691
Average assets	$ 2,120,218	$ 2,051,867	$ 2,026,791	$ 1,968,381	$ 1,913,484
Operating PTPP return on average assets (1)	1.51%	1.69%	1.76%	1.57%	1.42%
Operating return on average assets:					
Operating net income	$ 5,825	$ 5,919	$ 5,975	$ 5,297	$ 4,838
Average assets	$ 2,120,218	$ 2,051,867	$ 2,026,791	$ 1,968,381	$ 1,913,484
Operating return on average assets (1)	1.11%	1.14%	1.17%	1.08%	1.03%
Operating return on average equity:					
Operating net income	$ 5,825	$ 5,919	$ 5,975	$ 5,297	$ 4,838
Average equity	$ 183,371	$ 177,556	$ 185,288	$ 186,597	$ 201,860
Operating return on average equity	12.88%	13.23%	12.79%	11.39%	9.72%
Operating Revenue:					
Net interest income	$ 15,997	$ 16,866	$ 16,774	$ 15,642	$ 14,379
Non-interest income	2,070	(123)	1,789	1,617	1,945
Less: Net gains (losses) on sale of securities	(21)	(1,989)	(558)	(3)	21
Operating revenue	$ 18,088	$ 18,732	$ 19,121	$ 17,262	$ 16,303
Operating Efficiency Ratio:					
Total non-interest expense	$ 10,176	$ 10,014	$ 10,132	$ 9,551	$ 9,612
Operating revenue	$ 18,088	$ 18,732	$ 19,121	$ 17,262	$ 16,303
Operating efficiency ratio	56.26%	53.46%	52.99%	55.33%	58.96%

(1) Annualized.

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

	As of or For the Three Months Ended				
	3/31/2023	**12/31/2022**	**9/30/2022**	**6/30/2022**	**3/31/2022**
Tangible book value per common share (at period-end):[1]					
Total stockholders' equity	$ 183,858	$ 182,428	$ 177,417	$ 180,068	$ 192,039
Less: Intangible assets	-	-	-	-	-
Tangible stockholders' equity	$ 183,858	$ 182,428	$ 177,417	$ 180,068	$ 192,039
Total shares issued and outstanding (at period-end):					
Total common shares issued and outstanding	19,622,380	20,000,753	20,000,753	20,000,753	20,000,753
Tangible book value per common share[2]	$ 9.37	$ 9.12	$ 8.87	$ 9.00	$ 9.60
Operating diluted net income per common share:[1]					
Operating net income	$ 5,825	$ 5,919	$ 5,975	$ 5,297	$ 4,838
Total weighted average diluted shares of common stock	19,940,606	20,172,438	20,148,208	20,171,261	20,109,783
Operating diluted net income per common share:	$ 0.29	$ 0.29	$ 0.30	$ 0.26	$ 0.24
Tangible Common Equity/Tangible Assets					
Tangible stockholders' equity	$ 183,858	$ 182,428	$ 177,417	$ 180,068	$ 192,039
Tangible assets	$ 2,163,821	$ 2,085,834	$ 2,037,453	$ 2,016,086	$ 1,967,252
Tangible Common Equity/Tangible Assets	8.50%	8.75%	8.71%	8.93%	9.76%

(1) The Company believes these non-GAAP measurements are key indicators of the ongoing earnings power of the Company.
(2) Excludes the dilutive effect, if any, of shares of common stock issuable upon exercise of outstanding stock options.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2023. Based on that evaluation, management believes that the Company's disclosure controls and procedures were effective to collect, process, and disclose the information required to be disclosed in the reports filed or submitted under the Exchange Act within the required time periods as of the end of the period covered by this Form 10-Q.

Changes in Internal Control Over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

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

PART II

Item 1. Legal Proceedings

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 2022 Form 10-K/A and additional risk factors as of March 31, 2023 as set forth below.

Financial challenges at other banking institutions could lead to depositor concerns that spread within the banking industry causing disruptive and destabilizing deposit outflows.

In March 2023, Silicon Valley Bank and Signature Bank experienced large deposit outflows coupled with insufficient liquidity to meet withdrawal demands, resulting in the institutions being placed into FDIC receiverships. In the aftermath, there has been substantial market disruption and concerns that diminished depositor confidence could spread across the banking industry, leading to deposit outflows that could destabilize other institutions. To strengthen public confidence in the banking system, the FDIC took action to protect funds held in uninsured deposit accounts at Silicon Valley Bank and Signature Bank. However, the FDIC has not committed to protecting uninsured deposits in other institutions that experience outsized withdrawal demands. Subsequently, on May 1, 2023 First Republic Bank became another large bank to fail.

To further bolster the banking system, the FRB created a new Bank Term Funding Program to provide an additional source of liquidity. At March 31, 2023, the Company had $413.0 million in available liquidity on balance sheet, including $59.0 million in excess cash. The Company has an additional $228.0 million in off balance sheet liquidity, it excludes access to brokered deposits and other off balance sheet sources of funding. Notwithstanding our significant liquidity, large deposit outflows could adversely affect our financial condition and results of operations and could ultimately result in the closure of the Bank. Furthermore, the recent bank failures may result in federal and state banking regulators taking steps to strengthen capital and liquidity rules which, if the revised rules apply to us, could adversely affect the Company's financial condition and results of operations.

Our FDIC deposit insurance premiums and assessments may increase, which would reduce our profitability.

On March 12, 2023, the Department of the Treasury, the FRB and the FDIC issued a joint statement relating to the resolution of Silicon Valley Bank and Signature Bank that stated that losses to support uninsured deposits of those banks would be recovered via a special assessment on banks. The terms of that special assessment have not been announced. The announced special assessment, as well as any future increases in assessment rates or required prepayments in FDIC insurance premiums, to the extent that they result in increased deposit insurance costs, would reduce the Company's profitability.

Insufficient liquidity could impair our ability to fund operations and jeopardize our financial condition, growth and prospects.

The Company requires sufficient liquidity to fund loan commitments, satisfy depositor withdrawal requests, make payments on its debt obligations as they become due, and meet other cash commitments. Liquidity risk is the potential that the Company will not be able to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. The Company's sources of liquidity consist primarily of cash, assets readily convertible to cash (such as investment securities), increases in deposits, advances, as needed, from the FHLB, borrowings, as needed, from the Federal Reserve Bank of Atlanta and other borrowings, including pursuant to the Bank Term Funding Program. The Company's access to funding sources in amounts adequate to finance its activities or on acceptable terms could be impaired by factors that affect the Company in particular or the financial services industry or economy in general. Any substantial, unexpected, and/or prolonged change in the level or cost of liquidity could impair the Company's ability to fund operations and meet its obligations as they become due and could have a material adverse effect on the Company's business, financial condition and results of operations.

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

(a) None.

(b) Not applicable.

(c) The Company's repurchases of equity securities for the three months ended March 31, 2023 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs (1)
January 1 - 31, 2023	-	$ -	-	750,000
February 1 - 28, 2023	250,000	12.04	-	500,000
March 1 - 31, 2023	250,000	11.43	-	250,000
	500,000	$ 11.74	-	

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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 March 31, 2023 formatted in Inline XBRL: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), (vi) Notes to Consolidated Financial Statements (unaudited).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herby.

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)	May 12, 2023
/s/ Robert Anderson Robert Anderson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 12, 2023