



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 001-40379

**FIVE STAR BANCORP**

(Exact name of Registrant as specified in its charter)

**California**

(State or other jurisdiction of incorporation or organization)

**75-3100966**

(IRS Employer Identification No.)

**3100 Zinfandel Drive, Suite 100 Rancho Cordova, CA 95670**

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: **(916) 626-5000**

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

| Title of each class                  | Trading symbol | Name of each exchange on which registered |
|--------------------------------------|----------------|---|
| Common stock, no par value per share | FSBC           | 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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated Filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input checked="" type="checkbox"/> |                           |                                     |

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

As of May 5, 2023, there were 17,258,737 shares of the registrant's common stock, no par value, outstanding.

**TABLE OF CONTENTS**

**FIVE STAR BANCORP AND SUBSIDIARY**

Quarterly Report on Form 10-Q

March 31, 2023

|                |  |           |
|----------------|--|-----------|
| <b>PART I</b>  | <b><u>FINANCIAL INFORMATION</u></b>  | <b>1</b>  |
| ITEM 1.        | <u>Financial Statements (unaudited)</u>  | 1         |
|                | <u>Consolidated Balance Sheets</u>   | 1         |
|                | <u>Consolidated Statements of Income</u>   | 2         |
|                | <u>Consolidated Statements of Comprehensive Income</u>                                       | 3         |
|                | <u>Consolidated Statements of Shareholders' Equity</u>                                       | 4         |
|                | <u>Consolidated Statements of Cash Flows</u>   | 5         |
|                | <u>Notes to Consolidated Financial Statements (unaudited)</u>                                | 6         |
| ITEM 2.        | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 28        |
| ITEM 3.        | <u>Quantitative and Qualitative Disclosure About Market Risk</u>                             | 59        |
| ITEM 4.        | <u>Controls and Procedures</u>   | 59        |
| <b>PART II</b> | <b><u>OTHER INFORMATION</u></b>  | <b>60</b> |
| ITEM 1.        | <u>Legal Proceedings</u>   | 60        |
| ITEM 1A.       | <u>Risk Factors</u>  | 60        |
| ITEM 2.        | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 60        |
| ITEM 3.        | <u>Defaults Upon Senior Securities</u>   | 60        |
| ITEM 4.        | <u>Mine Safety Disclosures</u>   | 60        |
| ITEM 5.        | <u>Other Information</u>   | 60        |
| ITEM 6.        | <u>Exhibits</u>  | 61        |
|                | <u>SIGNATURES</u>  | 62        |

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## PART I FINANCIAL INFORMATION

## ITEM 1. Financial Statements

**FIVE STAR BANCORP AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

| <i>(in thousands, except share amounts)</i>  | <b>March 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>  |                           |                              |
| Cash and due from financial institutions   | \$ 26,556                 | \$ 32,561                    |
| Interest-bearing deposits in banks   | 321,383                   | 227,430                      |
| Cash and cash equivalents  | 347,939                   | 259,991                      |
| Time deposits in banks   | 9,617                     | 9,849                        |
| Securities available-for-sale, at fair value   | 115,140                   | 115,988                      |
| Securities held-to-maturity, at amortized cost (fair value of \$3,323 and \$3,432 at March 31, 2023 and December 31, 2022, respectively)   | 3,514                     | 3,756                        |
| Loans held for sale  | 11,315                    | 9,416                        |
| Loans held for investment  | 2,869,848                 | 2,791,326                    |
| Allowance for credit losses - loans  | (34,172)                  | (28,389)                     |
| Loans held for investment, net of allowance for credit losses  | 2,835,676                 | 2,762,937                    |
| FHLB stock   | 10,890                    | 10,890                       |
| Operating leases, right-of-use asset, net  | 5,175                     | 3,981                        |
| Premises and equipment, net  | 1,677                     | 1,605                        |
| Bank-owned life insurance  | 16,771                    | 14,669                       |
| Interest receivable and other assets   | 39,594                    | 34,077                       |
| <b>Total assets</b>  | <b>\$ 3,397,308</b>       | <b>\$ 3,227,159</b>          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                           |                              |
| Deposits:  |                           |                              |
| Non-interest-bearing   | \$ 836,673                | \$ 971,246                   |
| Interest-bearing   | 2,083,733                 | 1,810,758                    |
| Total deposits   | 2,920,406                 | 2,782,004                    |
| Borrowings:  |                           |                              |
| FHLB advances  | 120,000                   | 100,000                      |
| Subordinated debt, net   | 73,640                    | 73,606                       |
| Operating lease liability  | 5,433                     | 4,243                        |
| Interest payable and other liabilities   | 17,173                    | 14,481                       |
| Total liabilities  | 3,136,652                 | 2,974,334                    |
| Commitments and contingencies (Note 8)   |                           |                              |
| Shareholders' equity   |                           |                              |
| Preferred stock, no par value; 10,000,000 shares authorized; zero issued and outstanding at March 31, 2023 and December 31, 2022   | —                         | —                            |
| Common stock, no par value; 100,000,000 shares authorized; 17,258,904 shares issued and outstanding at March 31, 2023; 17,241,926 shares issued and outstanding at December 31, 2022 | 219,785                   | 219,543                      |
| Retained earnings  | 52,817                    | 46,736                       |
| Accumulated other comprehensive loss, net  | (11,946)                  | (13,454)                     |
| Total shareholders' equity   | 260,656                   | 252,825                      |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 3,397,308</b>       | <b>\$ 3,227,159</b>          |

See accompanying notes to the unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

| <i>(in thousands, except per share amounts)</i>       | <b>Three Months Ended<br/>March 31,</b> |                 |
|---|---|-----------------|
|   | <b>2023</b>                             | <b>2022</b>     |
| <b>Interest and fee income:</b>                       |   |                 |
| Loans, including fees                                 | \$ 37,494                               | \$ 22,112       |
| Taxable securities                                    | 466                                     | 390             |
| Nontaxable securities                                 | 184                                     | 177             |
| Interest-bearing deposits in other banks              | 2,167                                   | 192             |
| Total interest and fee income                         | 40,311                                  | 22,871          |
| <b>Interest expense:</b>                              |   |                 |
| Deposits  | 9,378                                   | 545             |
| FHLB advances   | 624                                     | —               |
| Subordinated debt                                     | 1,161                                   | 443             |
| Total interest expense                                | 11,163                                  | 988             |
| Net interest income                                   | 29,148                                  | 21,883          |
| Provision for credit losses                           | 900                                     | 950             |
| Net interest income after provision for credit losses | 28,248                                  | 20,933          |
| <b>Non-interest income:</b>                           |   |                 |
| Service charges on deposit accounts                   | 117                                     | 108             |
| Net gain on sale of securities available-for-sale     | —                                       | 5               |
| Gain on sale of loans                                 | 598                                     | 918             |
| Loan-related fees                                     | 308                                     | 596             |
| FHLB stock dividends                                  | 193                                     | 102             |
| Earnings on BOLI                                      | 102                                     | 90              |
| Other   | 53                                      | 345             |
| Total non-interest income                             | 1,371                                   | 2,164           |
| <b>Non-interest expense:</b>                          |   |                 |
| Salaries and employee benefits                        | 6,618                                   | 5,675           |
| Occupancy and equipment                               | 523                                     | 520             |
| Data processing and software                          | 872                                     | 716             |
| FDIC insurance  | 402                                     | 165             |
| Professional services                                 | 631                                     | 554             |
| Advertising and promotional                           | 418                                     | 344             |
| Loan-related expenses                                 | 255                                     | 278             |
| Other operating expenses                              | 1,399                                   | 1,323           |
| Total non-interest expense                            | 11,118                                  | 9,575           |
| Income before provision for income taxes              | 18,501                                  | 13,522          |
| Provision for income taxes                            | 5,340                                   | 3,660           |
| <b>Net income</b>                                     | <b>\$ 13,161</b>                        | <b>\$ 9,862</b> |
| Basic earnings per common share                       | \$ 0.77                                 | \$ 0.58         |
| Diluted earnings per common share                     | \$ 0.77                                 | \$ 0.58         |

See accompanying notes to unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

| <i>(in thousands)</i>   | <b>Three Months Ended<br/>March 31,</b> |                 |
|---|---|-----------------|
|   | <b>2023</b>                             | <b>2022</b>     |
| Net income  | \$ 13,161                               | \$ 9,862        |
| Unrealized gain (loss) on securities:   |   |                 |
| Net unrealized holding gain (loss) on securities available-for-sale during the period | 2,140                                   | (9,438)         |
| Reclassification adjustment for net realized gains included in net income             | —                                       | (5)             |
| Income tax expense (benefit) related to items of other comprehensive income           | 632                                     | (2,791)         |
| Other comprehensive income (loss)   | 1,508                                   | (6,652)         |
| <b>Total comprehensive income</b>   | <b>\$ 14,669</b>                        | <b>\$ 3,210</b> |

See accompanying notes to the unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For the Three Months Ended March 31, 2023 and 2022**  
(Unaudited)

| <i>(in thousands, except per share amounts)</i>               | Common Stock      |                   | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|-------------------|-------------------|-------------------|---|----------------------------|
|   | Shares            | Amount            |                   |   |                            |
| <b>Balance at December 31, 2021</b>                           | 17,224,848        | \$ 218,444        | \$ 17,168         | \$ (566)                                      | \$ 235,046                 |
| Cumulative effect of adoption of ASC 842 on retained earnings | —                 | —                 | 68                | —   | 68                         |
| Net income  | —                 | —                 | 9,862             | —   | 9,862                      |
| Other comprehensive loss                                      | —                 | —                 | —                 | (6,652)                                       | (6,652)                    |
| Stock issued under stock award plans, net                     | 22,201            | —                 | —                 | —   | —                          |
| Stock compensation expense                                    | —                 | 277               | —                 | —   | 277                        |
| Stock forfeitures   | (850)             | —                 | —                 | —   | —                          |
| Cash dividends paid (\$0.60 per share)                        | —                 | —                 | (7,540)           | —   | (7,540)                    |
| <b>Balance at March 31, 2022</b>                              | <b>17,246,199</b> | <b>\$ 218,721</b> | <b>\$ 19,558</b>  | <b>\$ (7,218)</b>                             | <b>\$ 231,061</b>          |
| <b>Balance at December 31, 2022</b>                           | 17,241,926        | \$ 219,543        | \$ 46,736         | \$ (13,454)                                   | \$ 252,825                 |
| Cumulative effect of adoption of ASC 326 on retained earnings | —                 | —                 | (4,491)           | —   | (4,491)                    |
| Net income  | —                 | —                 | 13,161            | —   | 13,161                     |
| Other comprehensive income                                    | —                 | —                 | —                 | 1,508   | 1,508                      |
| Stock issued under stock award plans, net                     | 16,978            | —                 | —                 | —   | —                          |
| Stock compensation expense                                    | —                 | 242               | —                 | —   | 242                        |
| Cash dividends paid (\$0.15 per share)                        | —                 | —                 | (2,589)           | —   | (2,589)                    |
| <b>Balance at March 31, 2023</b>                              | <b>17,258,904</b> | <b>\$ 219,785</b> | <b>\$ 52,817</b>  | <b>\$ (11,946)</b>                            | <b>\$ 260,656</b>          |

See accompanying notes to the unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

| <i>(in thousands)</i>  | <b>Three Months Ended</b> |                   |
|--|---------------------------|-------------------|
|  | <b>March 31,</b>          |                   |
|  | <b>2023</b>               | <b>2022</b>       |
| <b>Cash flows from operating activities:</b>   |                           |                   |
| Net income   | \$ 13,161                 | \$ 9,862          |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                           |                   |
| Provision for credit losses  | 900                       | 950               |
| Depreciation and amortization  | 419                       | 411               |
| Amortization of deferred loan fees and costs   | (36)                      | (365)             |
| Amortization of premiums and discounts on securities                                     | 313                       | 358               |
| Amortization of subordinated debt issuance costs   | 34                        | 17                |
| Stock compensation expense   | 242                       | 277               |
| Earnings on BOLI   | (102)                     | (90)              |
| Deferred tax provision   | 62                        | (2,777)           |
| Loans originated for sale  | (24,006)                  | (21,173)          |
| Gain on sale of loans  | (598)                     | (918)             |
| Proceeds from sale of loans  | 13,289                    | 11,705            |
| Net gain on sale of securities available-for-sale  | —                         | (5)               |
| Decrease in operating lease liability  | (233)                     | (234)             |
| <b>Net changes in:</b>   |                           |                   |
| Interest receivable and other assets   | (4,331)                   | 1,880             |
| Interest payable and other liabilities   | 1,580                     | 3,588             |
| <b>Net cash provided by operating activities</b>   | <b>694</b>                | <b>3,486</b>      |
| <b>Cash flows from investing activities:</b>   |                           |                   |
| Proceeds from sale of securities available-for-sale                                      | —                         | 1,623             |
| Maturities, prepayments, and calls of securities available-for-sale                      | 2,899                     | 4,731             |
| Purchases of securities available-for-sale   | —                         | (1,642)           |
| Net change in time deposits in banks   | 232                       | —                 |
| Loan originations, net of repayments   | (69,450)                  | (134,951)         |
| Purchase of premises and equipment   | (240)                     | (224)             |
| Purchase of BOLI   | (2,000)                   | (3,050)           |
| <b>Net cash used in investing activities</b>   | <b>(68,559)</b>           | <b>(133,513)</b>  |
| <b>Cash flows from financing activities:</b>   |                           |                   |
| Net change in deposits   | 138,402                   | 217,202           |
| FHLB advances  | 20,000                    | —                 |
| Cash dividends paid  | (2,589)                   | (7,540)           |
| <b>Net cash provided by financing activities</b>   | <b>155,813</b>            | <b>209,662</b>    |
| Net change in cash and cash equivalents  | 87,948                    | 79,635            |
| Cash and cash equivalents at beginning of period   | 259,991                   | 425,329           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 347,939</b>         | <b>\$ 504,964</b> |
| <b>Supplemental disclosure of cash flow information:</b>                                 |                           |                   |
| Interest paid  | \$ 471                    | \$ 932            |
| <b>Supplemental disclosure of noncash items:</b>   |                           |                   |
| Transfer from loans held for sale to loans held for investment                           | 9,416                     | 10,671            |
| Unrealized gain (loss) on securities   | 2,140                     | (9,438)           |
| Operating lease liabilities recorded in conjunction with adoption of ASC 842             | —                         | 5,221             |
| Operating lease liabilities exchanged for ROUAs  | 1,423                     | —                 |
| ROUA recorded in conjunction with adoption of ASC 842                                    | —                         | 4,974             |
| ROUA acquired  | (1,444)                   | —                 |
| Cumulative effect of adoption of ASC 842 on retained earnings                            | —                         | 68                |
| Cumulative effect of adoption of ASC 326 on retained earnings                            | (4,491)                   | —                 |

See accompanying notes to the unaudited consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Note 1: Basis of Presentation and Summary of Significant Accounting Policies

#### *(a) Organization*

Five Star Bank (the “Bank”) was chartered on October 26, 1999 and began operations on December 20, 1999. Five Star Bancorp (“Bancorp” or the “Company”) was incorporated on September 16, 2002 and subsequently obtained approval from the Federal Reserve to be a bank holding company in connection with its acquisition of the Bank. The Company became the sole shareholder of the Bank on June 2, 2003 in a statutory merger, pursuant to which each outstanding share of the Bank’s common stock was exchanged for one share of common stock of the Company.

The Company, through the Bank, provides financial services to customers who are predominately small and middle-market businesses, professionals, and individuals residing in the Northern California region. The Company’s primary loan products are commercial real estate loans, land development loans, construction loans, and operating lines of credit, and its primary deposit products are checking accounts, savings accounts, money market accounts, and term certificate accounts. The Bank currently has seven branch offices in Roseville, Natomas, Rancho Cordova, Redding, Elk Grove, Chico, and Yuba City, and one loan production office in Sacramento.

#### *(b) Basis of Financial Statement Presentation and Consolidation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as contained within the Financial Accounting Standards Board’s (“FASB”) ASC and the rules and regulations of the SEC, including the instructions to Regulation S-X. These interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders’ equity, and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as of and for the year ended December 31, 2022, and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Annual Report on Form 10-K”), which was filed with the SEC on February 24, 2023.

The unaudited consolidated financial statements include Five Star Bancorp and its wholly owned subsidiary, Five Star Bank. All significant intercompany transactions and balances are eliminated in consolidation.

The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the year ending December 31, 2023.

The Company’s accounting and reporting policies conform to GAAP and to general practices within the banking industry.

Certain amounts reported in previous consolidated financial statements have been reclassified to conform to current period presentation. These reclassifications did not affect previously reported amounts of net income, total assets, or total shareholders’ equity.

#### *(c) Segments*

While the Company’s chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated, on a Company-wide basis. Discrete financial information is not available other than on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

#### *(d) Emerging Growth Company*

The Company qualifies as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, and, as such, may take advantage of specified reduced reporting requirements and deferred accounting standards adoption dates, and is relieved of other significant requirements that are otherwise generally applicable to other public companies. The Company will remain an Emerging Growth Company for five years after its IPO date, unless one of the following



occurs: (i) total annual gross revenues are \$1.235 billion or more; (ii) the Company issues more than \$1 billion in non-convertible debt; or (iii) the Company becomes a large accelerated filer with a public float of more than \$0.7 billion.

*(e) Significant Accounting Policies*

The Company's significant accounting policies are included in Note 1, Basis of Presentation on the 2022 Annual Report on Form 10-K. There have been no changes to these significant accounting policies during the first three months of 2023 other than adoption of ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and all subsequent amendments that modified ASU 2016-13 (collectively, "ASC 326") as discussed below in this Note, which impacted the following policies:

*Allowance for Credit Losses ("ACL")*

The ACL is a valuation account that offsets the amortized cost basis of loans receivable and certain other financial assets, including unfunded loan commitments and held-to-maturity debt securities. Under ASC 326, amortized cost basis is the basis on which the ACL is determined. Amortized cost basis on loans receivable is principal outstanding, net of any purchase premiums and discounts, and net of any deferred loan fees and costs.

Credit losses are charged off when management believes that the collectability of at least some portion of outstanding principal is unlikely. These charge-offs are recorded as a reversal to, thereby reducing, the allowance for credit losses. Subsequent recoveries of previously charged-off amounts, if any, are recorded as a provision to, thereby increasing, the allowance for credit losses. The allowance for credit losses is maintained at a level to absorb expected credit losses over the contractual life, including consideration of prepayments. Determining the adequacy of the allowance is complex and requires judgments that are inherently subjective, as it requires estimates that are susceptible to revision as additional information becomes available. While the Company has determined an allowance for credit losses it considers appropriate, there can be no assurance that the allowance will be sufficient to absorb future losses.

The Company's process for determining expected lifetime credit losses entails a loan-level, model-based approach and considers a broad range of information, including historical loss experience, current conditions, and reasonable and supportable forecasts. Credit loss is estimated for all loans. Accordingly, the Company has stratified the full loan population into segments sharing similar characteristics to perform the evaluation of the credit loss collectively. The Company can also further stratify loans of similar types, risk attributes, and methods for credit risk monitoring.

The Company has determined pools based primarily on regulatory reporting codes as the loans within each pool share similar risk characteristics and there is sufficient historical peer loss data from the Federal Financial Institutions Examination Council to provide statistically meaningful support in the models developed. The Company further stratified the C&I portfolio into traditional C&I loans and SBA loans, as the loans in these pools have different repayment structures and credit risk characteristics. The Company also stratified C&I loans and consumer loans that do not require reserves as the Company has third party agreements in place to cover loan losses. The Company has identified the following pools subject to an estimate of credit loss: (1) 1-4 Family Construction; (2) Other Construction; (3) Farmland; (4) Revolving Secured by 1-4 Family; (5) Residential Secured by First Liens; (6) Residential Secured by Junior Liens; (7) Multifamily; (8) CRE Owner Occupied; (9) CRE Non-Owner Occupied; (10) Agriculture; (11) C&I; (12) C&I SBA; (13) Consumer; and (14) Municipal.

The Company has determined, given its limited loss experience, that peer data and other external data to support loss history provides the best basis for its assessment of expected credit losses. The Company believes that the use of peer loss data from 2008 to 2019 presents loss histories that appropriately reflect a full economic cycle, reflects asset-specific risk characteristics at each pool level identified, and includes a historical look-back period that is objective and reflective of future expected credit losses. Loss data from 2020 to 2021 was excluded from the data set to exclude pandemic-related data in the models.

The method for determining the estimate of lifetime credit losses includes, among other things, the following main components: (1) the use of Probability of Default ("PD") and Loss Given Default ("LGD") assumptions under a Discounted Cash Flow model; (2) a multi-scenario macroeconomic forecast; (3) an initial and reasonable and supportable forecast period of one year for all loan segments; and (4) a reversion period of one year using a linear transition method to historical loss rates.

Given the inherent limitations of a quantitative-only model, qualitative adjustments are included to factor in data points not captured from a quantitative analysis alone.

Qualitative criteria that can be considered includes, among other things, the following:

- Concentrations – the existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- Volume – changes in the nature and volume of the portfolio and in the terms of the loans;
- Economic – changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments;
- Policy – changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Quality – changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans; and
- External – the effect of other external factors, such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company’s loan portfolio.

Management reviews current information on a quarterly basis to assess the forecasted future economic impact for purposes of evaluating the adequacy of the ACL. The forecasted direction and magnitude of change with respect to future economic conditions is then assessed against the estimate in the model. Any changes resulting from the quarterly assessment are recorded in “Provision for credit losses” in the unaudited consolidated statements of income.

#### *Accrued Interest*

Accrued interest receivable is excluded from amortized cost of all financial instrument types and included in “Interest receivable and other assets” in the unaudited consolidated balance sheets. Accrued interest receivable is not subject to an estimate for credit loss as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. When a loan is placed on non-accrual status, which occurs within 90 days of a borrower becoming delinquent, interest previously accrued but not collected is reversed against current period income.

#### *Individually Assessed Loans*

If an individual loan’s characteristics have deteriorated to below a range of the overall pool, the loan would be individually assessed. Individually assessed loans are measured for credit loss based on one of the following methods: (1) present value of future expected cash flows, discounted at the loan’s effective interest rate; (2) amount by which carrying value of the loan exceeds the loan’s observable market price; or (3) the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent. The Company applies the practical expedient and defines collateral dependent loans as those where the borrower is experiencing financial difficulty and on which payment is expected to be provided substantially through the operation or sale of the collateral.

#### *Available-for-sale (“AFS”) Debt Securities*

Unrealized credit losses are recognized through an allowance for credit losses instead of an adjustment to amortized cost basis, eliminating the other-than-temporary impairment concept. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not, that it will be required to sell, the security before recovery of amortized cost basis. If either criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through earnings. For AFS debt securities that do not meet the above conditions, the Company evaluates at the individual security level whether the decrease in fair value has resulted from credit factors or non-credit factors. If assessment determines that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, then a credit loss would be recognized, limited to the amount by which the fair value is less than the amortized cost basis. All other changes in fair value of an AFS debt security are recognized in other comprehensive income, net of applicable taxes. Changes in the allowance for credit losses, if any, are recognized as a provision for (or reversal of) credit losses. As of March 31, 2023, the Company’s portfolio of AFS debt securities is comprised primarily of debt, mortgage-backed securities, and collateralized mortgage obligations issued by the U.S. government, its agencies, or government-sponsored enterprises, which are either explicitly or implicitly guaranteed by the U.S. government. The remainder of the portfolio is primarily comprised of

obligations of state and political subdivisions, which are generally rated as high grade. The history of minimal credit losses from these issuers indicates that expectation of non-payment of the amortized cost basis is zero. As such, the Company determined that the unrealized loss positions in AFS securities were not due to credit losses, but instead related to changes in interest rates and general market conditions and therefore, no credit loss expense was recognized.

#### *Loan Commitments*

Loan commitments not unconditionally cancellable are subject to an estimate of credit loss under the CECL model. The Company's process for determining the estimate of credit loss on loan commitments is the same as it is on loans. Unfunded loan commitment reserves are included in "Interest payable and other liabilities" in the unaudited consolidated balance sheets.

#### *Held-to-maturity Debt Securities*

The Company's process for determining the estimate of credit loss on held-to-maturity debt securities is substantially similar to what it is on loans, with segmenting not being applicable. As the amount of held-to-maturity debt securities that the Company carries is limited and given the determination that expected credit loss was immaterial, an immaterial amount was recognized in allowance for credit loss upon adoption and no credit loss expense was recorded for the three months ended March 31, 2023.

#### *TDRs*

In accordance with the adoption of ASC 326, which includes ASU No. 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, accounting guidance for TDRs for creditors has been eliminated. New guidance with respect to recognition, measurement, and disclosures of loans for borrowers experiencing financial difficulties supersedes guidance on TDRs. As of March 31, 2023, the amount of loans modified for borrowers due to experiencing financial difficulties under criteria of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or term extension was immaterial.

#### *(f) Recently Issued Accounting Standards*

The following information reflects recent accounting standards that have been adopted or are pending adoption by the Company. The Company qualifies as an emerging growth company, and as such, has elected to use the extended transition period for complying with new or revised accounting standards and is not subject to the new or revised accounting standards applicable to public companies during the extended transition period. The accounting standards discussed below indicate effective dates for the Company as an emerging growth company using the extended transition period.

#### *Accounting Standards Adopted*

On January 1, 2023, the Company adopted ASC 326, which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. The CECL model applies to estimated credit losses on loans receivable, held-to-maturity debt securities, unfunded loan commitments, and certain other financial assets measured at amortized cost. Under ASC 326, available-for-sale debt securities are evaluated for impairment if fair value is less than amortized cost, with any estimated credit losses recorded through a credit loss expense and an allowance, rather than a write-down of the investment. Changes in fair value that are not credit-related will continue to be recorded in other comprehensive income. The Company adopted this standard using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective for financial assets measured at amortized cost. For certain new disclosures required under ASC 326, such as credit quality indicators by year of origination, we have not restated comparative financial information before January 1, 2023 to conform under ASC 326. This adoption method is considered a change in accounting principle requiring additional disclosure of the nature and reason for the change, which is solely due to adoption of ASC 326. On January 1, 2023, the Company also adopted ASU No. 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which had no material impact.

The table that follows reflects the cumulative-effect adjustments the Company recorded on January 1, 2023 for the adoption of ASC 326:

| <i>(in thousands)</i>   | <b>January 1, 2023</b>      |                                   |                              |
|---|-----------------------------|-----------------------------------|------------------------------|
|   | <b>Pre-ASC 326 Adoption</b> | <b>Impact of ASC 326 Adoption</b> | <b>Post-ASC 326 Adoption</b> |
| <b>Assets:</b>  |                             |                                   |                              |
| Allowance for Credit Losses   | \$ (28,389)                 | \$ (5,282)                        | \$ (33,671)                  |
| Deferred Tax Asset (Interest receivable and other assets)                 | 12,273                      | 1,883                             | 14,156                       |
| <b>Liabilities:</b>   |                             |                                   |                              |
| Reserve for Unfunded Commitments (Interest payable and other liabilities) | (125)                       | (1,092)                           | (1,217)                      |
| <b>Shareholders' Equity:</b>  |                             |                                   |                              |
| Retained Earnings   | (46,736)                    | 4,491                             | (42,245)                     |

#### *Accounting Standards Issued But Not Yet Adopted*

For the fiscal year beginning January 1, 2023, there have been no new accounting standards issued but not yet adopted that are expected to be material to the Company.

#### **Note 2: Fair Value of Assets and Liabilities**

##### *Fair Value Hierarchy and Fair Value Measurement*

Accounting standards require the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as 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.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The following table summarizes the Company's assets and liabilities that were required to be recorded at fair value on a recurring basis.

| <i>(in thousands)</i>  | Carrying<br>Value | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Measurement<br>Categories:<br>Changes in Fair<br>Value Recorded<br>In |
|--|-------------------|--|---|--|---|
| <b>March 31, 2023</b>  |                   |  |   |  |   |
| Assets:  |                   |  |   |  |   |
| Securities available-for-sale:   |                   |  |   |  |   |
| U.S. government agencies, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds | \$ 115,140        | \$ —   | \$ 115,140  | \$ —   | OCI   |
| Derivatives – interest rate swap   | 16                | —  | 16  | —  | NI  |
| Liabilities:   |                   |  |   |  |   |
| Derivatives – interest rate swap   | 16                | —  | 16  | —  | NI  |
| <b>December 31, 2022</b>   |                   |  |   |  |   |
| Assets:  |                   |  |   |  |   |
| Securities available-for-sale:   |                   |  |   |  |   |
| U.S. government agencies, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds | \$ 115,988        | \$ —   | \$ 115,988  | \$ —   | OCI   |
| Derivatives – interest rate swap   | 16                | —  | 16  | —  | NI  |
| Liabilities:   |                   |  |   |  |   |
| Derivatives – interest rate swap   | 16                | —  | 16  | —  | NI  |

Available-for-sale securities are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1 inputs) are used to determine the fair value of available-for-sale securities. If quoted market prices are not available, management obtains pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, probability of default, loss severity, and credit spreads (Level 2 inputs). Level 2 securities include U.S. agencies' or government-sponsored agencies' debt securities, mortgage-backed securities, government agency-issued bonds, privately issued collateralized mortgage obligations, and corporate bonds. Level 3 securities are based on unobservable inputs that are supported by little or no market activity. In addition, values use discounted cash flow models and may include significant management judgment and estimation. As of March 31, 2023 and December 31, 2022, there were no Level 1 available-for-sale securities and no transfers between Level 1 and Level 2 classifications for assets or liabilities measured at fair value on a recurring basis.

On a recurring basis, derivative financial instruments are recorded at fair value, which is based on the income approach using observable Level 2 market inputs, reflecting market expectations of future interest rates as of the measurement date. Standard valuation techniques are used to calculate the present value of the future expected cash flows assuming an orderly transaction. Valuation adjustments may be made to reflect both the Company's credit risk and the counterparties' credit risk in determining the fair value of the derivatives. A similar credit risk adjustment, correlated to the credit standing of the counterparty, is made when collateral posted by the counterparty does not fully cover their liability to the Company.

Certain financial assets may be measured at fair value on a non-recurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets, such as collateral dependent loans and other real estate owned. As of March 31, 2023 and December 31, 2022, the amount carried of assets measured at fair value on a non-recurring basis was immaterial to the Company.

*Disclosures about Fair Value of Financial Instruments*

The table below is a summary of fair value estimates for financial instruments as of March 31, 2023 and December 31, 2022. The carrying amounts in the following table are recorded in the consolidated balance sheets under the indicated captions. Further, management has not disclosed the fair value of financial instruments specifically excluded from disclosure requirements, such as BOLI.

| <i>(in thousands)</i>   | March 31, 2023   |            |                      | December 31, 2022 |            |                      |
|---|------------------|------------|----------------------|-------------------|------------|----------------------|
|   | Carrying Amounts | Fair Value | Fair Value Hierarchy | Carrying Amounts  | Fair Value | Fair Value Hierarchy |
| <b>Financial assets:</b>                                      |                  |            |                      |                   |            |                      |
| Cash and cash equivalents                                     | \$ 347,939       | \$ 347,939 | Level 1              | \$ 259,991        | \$ 259,991 | Level 1              |
| Time deposits in banks  | 9,617            | 9,617      | Level 1              | 9,849             | 9,849      | Level 1              |
| Securities available-for-sale                                 | 115,140          | 115,140    | Level 2              | 115,988           | 115,988    | Level 2              |
| Securities held-to-maturity                                   | 3,514            | 3,323      | Level 3              | 3,756             | 3,432      | Level 3              |
| Loans held for sale   | 11,315           | 12,500     | Level 2              | 9,416             | 9,785      | Level 2              |
| Loans held for investment, net of allowance for credit losses | 2,835,676        | 2,657,245  | Level 3              | 2,762,937         | 2,570,176  | Level 3              |
| FHLB stock and other investments                              | 17,652           | N/A        | N/A                  | 16,570            | N/A        | N/A                  |
| Interest receivable   | 7,743            | 7,743      | Level 2              | 7,454             | 7,454      | Level 2              |
| Interest rate swap  | 16               | 16         | Level 2              | 16                | 16         | Level 2              |
| <b>Financial liabilities:</b>                                 |                  |            |                      |                   |            |                      |
| Deposits  | 2,920,406        | 2,715,580  | Level 2              | 2,782,004         | 2,562,600  | Level 2              |
| Interest payable  | 941              | 941        | Level 2              | 1,568             | 1,568      | Level 2              |
| Interest rate swap  | 16               | 16         | Level 2              | 16                | 16         | Level 2              |
| FHLB advances   | 120,000          | 120,000    | Level 2              | 100,000           | 100,000    | Level 2              |
| Subordinated notes  | 73,640           | 72,326     | Level 3              | 73,606            | 72,273     | Level 3              |

The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at March 31, 2023 and December 31, 2022:

Cash and cash equivalents and time deposits in banks: The carrying amount is estimated to be fair value due to the liquid nature of the assets and their short-term maturities.

Investment securities: See discussion above for the methods and assumptions used by the Company to estimate the fair value of investment securities.

Loans held for sale: For loans held for sale, the fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

Loans held for investment, net of allowance for credit losses: For variable rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, which use interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness without considering widening credit spreads due to market illiquidity, which approximates the exit price notion. The allowance for credit losses is considered to be a reasonable estimate of loan discount for credit quality concerns.

Interest receivable and payable: For interest receivable and payable, the carrying amount is estimated to be fair value.

Derivatives - interest rate swap: See above for a discussion of the methods and assumptions used by the Company to estimate the fair value of derivatives.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date, as represented by their carrying amount. Fair values for fixed rate certificates of deposit are estimated using a

discounted cash flow analysis that uses interest rates being offered at each reporting date by the Company for certificates with similar remaining maturities. For variable rate time deposits, cost approximates fair value.

**Subordinated notes:** The fair value is estimated by discounting the future cash flow using the current three-month London Inter-Bank Offered Rate. The Company's subordinated notes are not registered securities and were issued through private placements, resulting in a Level 3 classification. The notes are recorded at carrying value.

### Note 3: Investment Securities

The Company's investment securities portfolio includes obligations of states and political subdivisions, securities issued by U.S. federal government agencies such as the SBA, and securities issued by U.S. GSEs, such as FNMA, FHLMC, and FHLB. The Company also invests in residential and commercial mortgage-backed securities, collateralized mortgage obligations issued or guaranteed by government sponsored entities, and corporate bonds, as reflected in the following tables.

A summary of the amortized cost and fair value related to securities held-to-maturity as of March 31, 2023 and December 31, 2022 is presented below.

| <i>(in thousands)</i>                            | Amortized<br>Cost | Gross Unrealized |          | Fair<br>Value |
|--|-------------------|------------------|----------|---------------|
|  |                   | Gains            | (Losses) |               |
| <b>March 31, 2023</b>                            |                   |                  |          |               |
| Obligations of states and political subdivisions | \$ 3,514          | \$ —             | \$ (191) | \$ 3,323      |
| Total held-to-maturity                           | \$ 3,514          | \$ —             | \$ (191) | \$ 3,323      |
| <b>December 31, 2022</b>                         |                   |                  |          |               |
| Obligations of states and political subdivisions | \$ 3,756          | \$ —             | \$ (324) | \$ 3,432      |
| Total held-to-maturity                           | \$ 3,756          | \$ —             | \$ (324) | \$ 3,432      |

For securities issued by states and political subdivisions, for purposes of evaluating whether to recognize credit loss expense, management considers: (i) issuer and/or guarantor credit ratings; (ii) historical probability of default and loss given default rates for given bond ratings and remaining maturity; (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities; (iv) internal credit review of the financial information; and (v) whether or not such securities have credit enhancements such as guarantees, contain a defeasance clause, or are pre-refunded by the issuers.

The Company adopted ASC 326 on January 1, 2023, which affects accounting of credit loss expense on held-to-maturity and available-for-sale securities. Refer to Note 1, Basis of Presentation and Summary of Significant Accounting Policies, and Note 2, Fair Value of Assets and Liabilities, for further detail.

A summary of the amortized cost and fair value related to securities available-for-sale as of March 31, 2023 and December 31, 2022 is presented below.

| <i>(in thousands)</i>                            | Amortized<br>Cost | Gross Unrealized |                    | Fair<br>Value     |
|--|-------------------|------------------|--------------------|-------------------|
|  |                   | Gains            | (Losses)           |                   |
| <b>March 31, 2023</b>                            |                   |                  |                    |                   |
| U.S. government agencies                         | \$ 13,211         | \$ 93            | \$ (157)           | \$ 13,147         |
| Mortgage-backed securities                       | 71,880            | —                | (10,911)           | 60,969            |
| Obligations of states and political subdivisions | 44,590            | 25               | (5,744)            | 38,871            |
| Collateralized mortgage obligations              | 419               | —                | (35)               | 384               |
| Corporate bonds                                  | 2,000             | —                | (231)              | 1,769             |
| Total available-for-sale                         | <u>\$ 132,100</u> | <u>\$ 118</u>    | <u>\$ (17,078)</u> | <u>\$ 115,140</u> |
| <b>December 31, 2022</b>                         |                   |                  |                    |                   |
| U.S. government agencies                         | \$ 14,317         | \$ 81            | \$ (225)           | \$ 14,173         |
| Mortgage-backed securities                       | 73,111            | 1                | (11,841)           | 61,271            |
| Obligations of states and political subdivisions | 45,223            | 21               | (6,818)            | 38,426            |
| Collateralized mortgage obligations              | 436               | —                | (41)               | 395               |
| Corporate bonds                                  | 2,000             | —                | (277)              | 1,723             |
| Total available-for-sale                         | <u>\$ 135,087</u> | <u>\$ 103</u>    | <u>\$ (19,202)</u> | <u>\$ 115,988</u> |



The amortized cost and fair value of investment debt securities by contractual maturity at March 31, 2023 and December 31, 2022 are shown below. Expected maturities may differ from contractual maturities if the issuers of the securities have the right to call or prepay obligations with or without call or prepayment penalties.

| <i>(in thousands)</i>                                    | March 31, 2023   |                 |                    |                   | December 31, 2022 |                 |                    |                   |
|--|------------------|-----------------|--------------------|-------------------|-------------------|-----------------|--------------------|-------------------|
|  | Held-to-Maturity |                 | Available-for-Sale |                   | Held-to-Maturity  |                 | Available-for-Sale |                   |
|  | Amortized Cost   | Fair Value      | Amortized Cost     | Fair Value        | Amortized Cost    | Fair Value      | Amortized Cost     | Fair Value        |
| Within one year  | \$ 354           | \$ 334          | \$ —               | \$ —              | \$ 417            | \$ 381          | \$ 501             | \$ 501            |
| After one but within five years                          | 950              | 899             | —                  | —                 | 1,015             | 927             | —                  | —                 |
| After five years through ten years                       | 1,375            | 1,300           | 5,818              | 5,307             | 1,470             | 1,343           | 5,320              | 4,761             |
| After ten years  | 835              | 790             | 38,772             | 33,564            | 854               | 781             | 39,402             | 33,164            |
| Investment securities not due at a single maturity date: |                  |                 |                    |                   |                   |                 |                    |                   |
| U.S. government agencies                                 | —                | —               | 13,211             | 13,147            | —                 | —               | 14,317             | 14,173            |
| Mortgage-backed securities                               | —                | —               | 71,880             | 60,969            | —                 | —               | 73,111             | 61,271            |
| Collateralized mortgage obligations                      | —                | —               | 419                | 384               | —                 | —               | 436                | 395               |
| Corporate bonds  | —                | —               | 2,000              | 1,769             | —                 | —               | 2,000              | 1,723             |
| <b>Total</b>   | <b>\$ 3,514</b>  | <b>\$ 3,323</b> | <b>\$ 132,100</b>  | <b>\$ 115,140</b> | <b>\$ 3,756</b>   | <b>\$ 3,432</b> | <b>\$ 135,087</b>  | <b>\$ 115,988</b> |

Sales of investment securities and gross gains and losses are shown in the following table:

| <i>(in thousands)</i> | For the three months ended |                   |
|-----------------------|----------------------------|-------------------|
|                       | March 31,<br>2023          | March 31,<br>2022 |
| Available-for-sale:   |                            |                   |
| Sales proceeds        | \$ —                       | \$ 1,623          |
| Gross realized gains  | —                          | 5                 |

Pledged investment securities are shown in the following table:

| <i>(in thousands)</i>   | March 31,<br>2023 | December 31,<br>2022 |
|---|-------------------|----------------------|
| Pledged to:   |                   |                      |
| The State of California, securing deposits of public funds and borrowings | \$ 40,196         | \$ 40,465            |
| The Federal Reserve Discount Window, increasing borrowing capacity        | 53,660            | —                    |
| Total pledged investment securities                                       | <u>\$ 93,856</u>  | <u>\$ 40,465</u>     |

The following table details the gross unrealized losses and fair values aggregated by investment category and length of time that individual available-for-sale securities have been in a continuous unrealized loss position at March 31, 2023 and December 31, 2022:

| <i>(in thousands)</i>                            | Less than 12 months |                   | 12 months or more |                    | Total securities<br>in a loss position |                    |
|--|---------------------|-------------------|-------------------|--------------------|--|--------------------|
|  | Fair Value          | Unrealized Loss   | Fair Value        | Unrealized Loss    | Fair Value                             | Unrealized Loss    |
| <b>March 31, 2023</b>                            |                     |                   |                   |                    |  |                    |
| U.S. government agencies                         | \$ 1,750            | \$ (1)            | \$ 8,785          | \$ (156)           | \$ 10,535                              | \$ (157)           |
| Mortgage-backed securities                       | 176                 | (3)               | 60,570            | (10,908)           | 60,746                                 | (10,911)           |
| Obligations of states and political subdivisions | 257                 | (11)              | 37,063            | (5,733)            | 37,320                                 | (5,744)            |
| Collateralized mortgage obligations              | —                   | —                 | 384               | (35)               | 384                                    | (35)               |
| Corporate bonds                                  | —                   | —                 | 1,769             | (231)              | 1,769                                  | (231)              |
|  | <u>\$ 2,183</u>     | <u>\$ (15)</u>    | <u>\$ 108,571</u> | <u>\$ (17,063)</u> | <u>\$ 110,754</u>                      | <u>\$ (17,078)</u> |
| <b>December 31, 2022</b>                         |                     |                   |                   |                    |  |                    |
| U.S. government agencies                         | \$ 3,090            | \$ (125)          | \$ 8,392          | \$ (100)           | \$ 11,482                              | \$ (225)           |
| Mortgage-backed securities                       | 4,360               | (470)             | 56,908            | (11,371)           | 61,268                                 | (11,841)           |
| Obligations of states and political subdivisions | 24,707              | (4,097)           | 11,670            | (2,721)            | 36,377                                 | (6,818)            |
| Collateralized mortgage obligations              | 395                 | (41)              | —                 | —                  | 395                                    | (41)               |
| Corporate bonds                                  | —                   | —                 | 1,723             | (277)              | 1,723                                  | (277)              |
|  | <u>\$ 32,552</u>    | <u>\$ (4,733)</u> | <u>\$ 78,693</u>  | <u>\$ (14,469)</u> | <u>\$ 111,245</u>                      | <u>\$ (19,202)</u> |

There were 151 and 152 available-for-sale securities in unrealized loss positions at March 31, 2023 and December 31, 2022, respectively. As of March 31, 2023, the investment portfolio included 147 investment securities that had been in a continuous loss position for twelve months or more and four investment securities that had been in a loss position for less than twelve months.

There was one held-to-maturity security in a continuous unrealized loss position at March 31, 2023, which had been in a continuous loss position for more than twelve months.

Obligations issued or guaranteed by government agencies such as GNMA and the SBA or GSEs under conservatorship such as the FNMA and the FHLMC are guaranteed or sponsored by agencies of the U.S. government and have strong credit profiles. The Company therefore expects to receive all contractual interest payments on time and believes the risk of credit losses on these securities is remote.

The Company's investment in obligations of states and political subdivisions are deemed credit worthy after management's comprehensive analysis of the issuers' latest financial information, credit ratings by major credit agencies, and/or credit enhancements.

*Non-Marketable Securities Included in Other Assets*

FHLB capital stock: As a member of the FHLB, the Company is required to maintain a minimum investment in FHLB capital stock determined by the board of directors of the FHLB. The minimum investment requirements can increase in the event the Company increases its total asset size or borrowings with the FHLB. Shares cannot be purchased or sold except between the FHLB and its members at the \$100 per share par value. The Company held \$10.9 million and \$10.9 million of FHLB stock at March 31, 2023 and December 31, 2022, respectively. The carrying amounts of these investments are reasonable estimates of fair value because the securities are restricted to member banks and do not have a readily determinable market value. Based on management's analysis of the FHLB's financial condition and certain qualitative factors, management determined that the FHLB stock was not impaired at March 31, 2023 and December 31, 2022. On February 22, 2023, the FHLB announced a cash dividend for the fourth quarter of 2022 at an annualized dividend rate of 7.00%, which was paid on March 10, 2023. Cash dividends received on FHLB capital stock amounted to \$0.2 million and \$0.1 million for the three months ended March 31, 2023 and 2022, respectively, and were recorded as non-interest income on the unaudited consolidated statements of income.

#### Note 4: Loans and Allowance for Credit Losses

The Company's loan portfolio is its largest class of earning assets and typically provides higher yields than other types of earning assets. Associated with the higher yields is an inherent amount of credit risk which the Company attempts to mitigate through strong underwriting practices. The following table presents the balance of each major product type within the Company's portfolio as of the dates indicated.

| <i>(in thousands)</i>   | March 31,<br>2023   | December 31,<br>2022 |
|---|---------------------|----------------------|
| Real estate:  |                     |                      |
| Commercial  | \$ 2,442,520        | \$ 2,394,674         |
| Commercial land and development                               | 15,475              | 7,477                |
| Commercial construction                                       | 98,415              | 88,669               |
| Residential construction                                      | 9,410               | 6,693                |
| Residential   | 23,862              | 24,230               |
| Farmland  | 51,616              | 52,478               |
| Commercial:   |                     |                      |
| Secured   | 173,500             | 165,186              |
| Unsecured   | 24,776              | 25,431               |
| Consumer and other  | 32,378              | 28,628               |
| Subtotal  | 2,871,952           | 2,793,466            |
| Less: Net deferred loan fees                                  | 2,104               | 2,140                |
| Less: Allowance for credit losses                             | 34,172              | 28,389               |
| Loans held for investment, net of allowance for credit losses | <u>\$ 2,835,676</u> | <u>\$ 2,762,937</u>  |

#### *Underwriting*

**Commercial loans:** Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

**Real estate loans:** Real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected than other loans by conditions in the real estate market or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria.

**Construction loans:** With respect to construction loans that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent

on the ultimate success of the project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored using on-site inspections and are generally considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Residential real estate loans: Residential real estate loans are underwritten based upon the borrower's income, credit history, and collateral. To monitor and manage residential loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements.

Farmland loans: Farmland loans are generally made to producers and processors of crops and livestock. Repayment is primarily from the sale of an agricultural product or service. Farmland loans are secured by real property and are susceptible to changes in market demand for specific commodities. This may be exacerbated by, among other things, industry changes, changes in the individual financial capacity of the business owner, general economic conditions, and changes in business cycles, as well as adverse weather conditions.

Consumer loans: The Company purchased consumer loans underwritten utilizing credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements.

#### *Credit Quality Indicators*

The Company has established a loan risk rating system to measure and monitor the quality of the loan portfolio. All loans are assigned a risk rating from the inception of the loan until the loan is paid off. The primary loan grades are as follows:

Loans rated pass: These are loans to borrowers with satisfactory financial support, repayment capacity, and credit strength. Borrowers in this category demonstrate fundamentally sound financial positions, repayment capacity, credit history, and management expertise. Loans in this category must have an identifiable and stable source of repayment and meet the Company's policy regarding debt service coverage ratios. These borrowers are capable of sustaining normal economic, market, or operational setbacks without significant financial impacts. Financial ratios and trends are acceptable. Negative external industry factors are generally not present. The loan may be secured, unsecured, or supported by non-real estate collateral for which the value is more difficult to determine and/or marketability is more uncertain.

Loans rated watch: These are loans which have deficient loan quality and potentially significant issues, but losses do not appear to be imminent, and the issues are expected to be temporary in nature. The significant issues are typically: (i) a history of losses or events that threaten the borrower's viability; (ii) a property with significant depreciation and/or marketability concerns; or (iii) poor or deteriorating credit, occasional late payments, and/or limited reserves but the loan is generally kept current. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

Loans rated substandard: These are loans which are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged (if any). Loans so classified exhibit a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans are characterized by the distinct possibility that the Company may sustain some loss if the deficiencies are not corrected.

Loans rated doubtful: These are loans for which the collection or liquidation of the entire debt is highly questionable or improbable. Typically, the possibility of loss is extremely high. The losses on these loans are deferred until all pending factors have been addressed.

The amortized cost basis of the Company's loans by origination year, where origination is defined as the later of origination or renewal date, and credit quality indicator as of March 31, 2023 was as follows (disclosure not comparative due to adoption of ASC 326 on January 1, 2023 – refer to Note 1, Basis of Presentation and Summary of Significant Accounting Policies, for further details):

| <i>(in thousands)</i>                  | Amortized Cost Basis by Origination Year |            |            |            |            |            | Revolving<br>Loans | Revolving<br>Converted to<br>Term | Total        |
|--|--|------------|------------|------------|------------|------------|--------------------|-----------------------------------|--------------|
|  | 2023                                     | 2022       | 2021       | 2020       | 2019       | Prior      |                    |                                   |              |
| <b>Real estate:</b>                    |  |            |            |            |            |            |                    |                                   |              |
| <b>Commercial</b>                      |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | \$ 72,905                                | \$ 981,387 | \$ 725,336 | \$ 245,756 | \$ 131,860 | \$ 262,890 | \$ 2,966           | \$ —                              | \$ 2,423,100 |
| Watch                                  | —  | 2,500      | —          | 7,044      | —          | 5,734      | 1,393              | —                                 | 16,671       |
| Substandard                            | —  | —          | —          | —          | —          | 102        | —                  | —                                 | 102          |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | 72,905                                   | 983,887    | 725,336    | 252,800    | 131,860    | 268,726    | 4,359              | —                                 | 2,439,873    |
| <b>Commercial land and development</b> |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | 8,376                                    | 4,553      | 1,296      | 187        | —          | 1,019      | —                  | —                                 | 15,431       |
| Watch                                  | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Substandard                            | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | 8,376                                    | 4,553      | 1,296      | 187        | —          | 1,019      | —                  | —                                 | 15,431       |
| <b>Commercial construction</b>         |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | 757                                      | 32,079     | 47,673     | 11,725     | —          | —          | —                  | —                                 | 92,234       |
| Watch                                  | —  | —          | —          | —          | —          | 5,900      | —                  | —                                 | 5,900        |
| Substandard                            | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | 757                                      | 32,079     | 47,673     | 11,725     | —          | 5,900      | —                  | —                                 | 98,134       |
| <b>Residential construction</b>        |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | —  | 3,209      | 6,201      | —          | —          | —          | —                  | —                                 | 9,410        |
| Watch                                  | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Substandard                            | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | —  | 3,209      | 6,201      | —          | —          | —          | —                  | —                                 | 9,410        |
| <b>Residential</b>                     |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | 628                                      | 4,048      | 6,399      | 2,336      | 2,299      | 6,605      | 1,407              | —                                 | 23,722       |
| Watch                                  | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Substandard                            | —  | —          | —          | —          | —          | 175        | —                  | —                                 | 175          |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | 628                                      | 4,048      | 6,399      | 2,336      | 2,299      | 6,780      | 1,407              | —                                 | 23,897       |
| <b>Farmland</b>                        |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | —  | 8,157      | 12,811     | 8,129      | 12,753     | 9,731      | —                  | —                                 | 51,581       |
| Watch                                  | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Substandard                            | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | —  | 8,157      | 12,811     | 8,129      | 12,753     | 9,731      | —                  | —                                 | 51,581       |
| <b>Commercial:</b>                     |  |            |            |            |            |            |                    |                                   |              |
| <b>Secured</b>                         |  |            |            |            |            |            |                    |                                   |              |
| Pass                                   | 4,196                                    | 52,454     | 25,275     | 17,792     | 12,243     | 15,668     | 44,634             | —                                 | 172,262      |
| Watch                                  | —  | 610        | 8          | 38         | 13         | 906        | —                  | —                                 | 1,575        |
| Substandard                            | —  | —          | —          | —          | 56         | 62         | —                  | —                                 | 118          |
| Doubtful                               | —  | —          | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                                  | 4,196                                    | 53,064     | 25,283     | 17,830     | 12,312     | 16,636     | 44,634             | —                                 | 173,955      |

Amortized Cost Basis by Origination Year

| <i>(in thousands)</i> | 2023      | 2022         | 2021       | 2020       | 2019       | Prior      | Revolving<br>Loans | Revolving<br>Converted to<br>Term | Total        |
|-----------------------|-----------|--------------|------------|------------|------------|------------|--------------------|-----------------------------------|--------------|
| <b>Commercial:</b>    |           |              |            |            |            |            |                    |                                   |              |
| Unsecured             |           |              |            |            |            |            |                    |                                   |              |
| Pass                  | 4,243     | 3,362        | 4,560      | 4,965      | 2,680      | 67         | 4,953              | —                                 | 24,830       |
| Watch                 | —         | —            | —          | —          | —          | —          | —                  | —                                 | —            |
| Substandard           | —         | —            | —          | —          | —          | —          | —                  | —                                 | —            |
| Doubtful              | —         | —            | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                 | 4,243     | 3,362        | 4,560      | 4,965      | 2,680      | 67         | 4,953              | —                                 | 24,830       |
| Consumer and other    |           |              |            |            |            |            |                    |                                   |              |
| Pass                  | 6,155     | 15,636       | 10,563     | —          | —          | 360        | —                  | —                                 | 32,714       |
| Watch                 | —         | —            | —          | —          | —          | —          | —                  | —                                 | —            |
| Substandard           | —         | 23           | —          | —          | —          | —          | —                  | —                                 | 23           |
| Doubtful              | —         | —            | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                 | 6,155     | 15,659       | 10,563     | —          | —          | 360        | —                  | —                                 | 32,737       |
| <b>Total</b>          |           |              |            |            |            |            |                    |                                   |              |
| Pass                  | 97,260    | 1,104,885    | 840,114    | 290,890    | 161,835    | 296,340    | 53,960             | —                                 | 2,845,284    |
| Watch                 | —         | 3,110        | 8          | 7,082      | 13         | 12,540     | 1,393              | —                                 | 24,146       |
| Substandard           | —         | 23           | —          | —          | 56         | 339        | —                  | —                                 | 418          |
| Doubtful              | —         | —            | —          | —          | —          | —          | —                  | —                                 | —            |
| Total                 | \$ 97,260 | \$ 1,108,018 | \$ 840,122 | \$ 297,972 | \$ 161,904 | \$ 309,219 | \$ 55,353          | \$ —                              | \$ 2,869,848 |

Management regularly reviews the Company's loans for accuracy of risk grades whenever new information is received. Borrowers are generally required to submit financial information at regular intervals. Typically, commercial borrowers with lines of credit are required to submit financial information with reporting intervals ranging from monthly to annually depending on credit size, risk, and complexity. In addition, investor commercial real estate borrowers with loans exceeding a certain dollar threshold are usually required to submit rent rolls or property income statements annually. Management monitors construction loans monthly and reviews consumer loans based on delinquency. Management also reviews loans graded "watch" or worse, regardless of loan type, no less than quarterly.

The age analysis of past due loans by class as of March 31, 2023 consisted of the following:

| <i>(in thousands)</i>           | Past Due      |                         | Total Past<br>Due | Current      | Total Loans<br>Receivable |
|---------------------------------|---------------|-------------------------|-------------------|--------------|---------------------------|
|                                 | 30-89<br>Days | Greater Than<br>90 Days |                   |              |                           |
| <b>Real estate:</b>             |               |                         |                   |              |                           |
| Commercial                      | \$ —          | \$ —                    | \$ —              | \$ 2,439,873 | \$ 2,439,873              |
| Commercial land and development | —             | —                       | —                 | 15,431       | 15,431                    |
| Commercial construction         | —             | —                       | —                 | 98,134       | 98,134                    |
| Residential construction        | —             | —                       | —                 | 9,410        | 9,410                     |
| Residential                     | —             | 175                     | 175               | 23,722       | 23,897                    |
| Farmland                        | —             | —                       | —                 | 51,581       | 51,581                    |
| <b>Commercial:</b>              |               |                         |                   |              |                           |
| Secured                         | 46            | —                       | 46                | 173,909      | 173,955                   |
| Unsecured                       | —             | —                       | —                 | 24,830       | 24,830                    |
| Consumer and other              | 81            | —                       | 81                | 32,656       | 32,737                    |
| Total                           | \$ 127        | \$ 175                  | \$ 302            | \$ 2,869,546 | \$ 2,869,848              |

There were no loans between 60-89 days past due nor any loans greater than 90 days past due and still accruing as of March 31, 2023.

The age analysis of past due loans by class as of December 31, 2022 consisted of the following:

| <i>(in thousands)</i>           | Past Due   |                      | Total Past Due | Current      | Total Loans Receivable |
|---------------------------------|------------|----------------------|----------------|--------------|------------------------|
|                                 | 30-89 Days | Greater Than 90 Days |                |              |                        |
| Real estate:                    |            |                      |                |              |                        |
| Commercial                      | \$ —       | \$ —                 | \$ —           | \$ 2,392,053 | \$ 2,392,053           |
| Commercial land and development | —          | —                    | —              | 7,447        | 7,447                  |
| Commercial construction         | —          | —                    | —              | 88,314       | 88,314                 |
| Residential construction        | —          | —                    | —              | 6,693        | 6,693                  |
| Residential                     | 175        | —                    | 175            | 24,088       | 24,263                 |
| Farmland                        | —          | —                    | —              | 52,446       | 52,446                 |
| Commercial:                     |            |                      |                |              |                        |
| Secured                         | —          | —                    | —              | 165,609      | 165,609                |
| Unsecured                       | —          | —                    | —              | 25,488       | 25,488                 |
| Consumer and other              | 194        | —                    | 194            | 28,819       | 29,013                 |
| Total                           | \$ 369     | \$ —                 | \$ 369         | \$ 2,790,957 | \$ 2,791,326           |

There were no loans between 60-89 days past due nor any loans greater than 90 days past due and still accruing as of December 31, 2022.

One collateral dependent loan was in process of foreclosure at March 31, 2023: a commercial term loan secured by a single family residence with an unpaid principal balance of \$175.0 thousand and no related allowance.

Non-accrual loans, segregated by class, were as follows as of March 31, 2023 and December 31, 2022:

| <i>(in thousands)</i>   | March 31, 2023 | December 31, 2022 |
|-------------------------|----------------|-------------------|
| Real estate:            |                |                   |
| Commercial              | \$ 102         | \$ 106            |
| Residential             | 175            | 175               |
| Commercial:             |                |                   |
| Secured                 | 118            | 123               |
| Consumer and other      | 23             | —                 |
| Total non-accrual loans | \$ 418         | \$ 404            |

No interest income was recognized on non-accrual loans in the three months ended March 31, 2023 or March 31, 2022. Non-accrual real estate loans did not have an allowance for credit losses as of March 31, 2023. Interest income can be recognized on non-accrual loans in cases where resolution occurs through a sale or full payment is received on the non-accrual loan.

The amount of foregone interest income related to non-accrual loans was \$9.1 thousand for the three months ended March 31, 2023, compared to \$18.3 thousand for the three months ended March 31, 2022.



### Allowance for Credit Losses

The following table discloses activity in the allowance for credit losses for the three months ended March 31, 2023.

| <i>(in thousands)</i>           | Beginning Balance | Effect of Adoption of ASC 326 | Charge-offs     | Recoveries    | Provision (Benefit) | Ending Balance   |
|---------------------------------|-------------------|-------------------------------|-----------------|---------------|---------------------|------------------|
| <b>Real estate:</b>             |                   |                               |                 |               |                     |                  |
| Commercial                      | \$ 19,216         | \$ 7,606                      | \$ —            | \$ —          | \$ 24               | \$ 26,846        |
| Commercial land and development | 54                | 74                            | —               | —             | 96                  | 224              |
| Commercial construction         | 645               | 882                           | —               | —             | (104)               | 1,423            |
| Residential construction        | 49                | 81                            | —               | —             | 43                  | 173              |
| Residential                     | 175               | 3                             | —               | —             | 1                   | 179              |
| Farmland                        | 644               | (396)                         | —               | —             | (31)                | 217              |
| <b>Commercial:</b>              |                   |                               |                 |               |                     |                  |
| Secured                         | 7,098             | (3,060)                       | (488)           | 92            | 573                 | 4,215            |
| Unsecured                       | 116               | 37                            | —               | —             | (3)                 | 150              |
| Consumer and other              | 347               | 80                            | (384)           | 401           | (44)                | 400              |
| Unallocated                     | 45                | (45)                          | —               | —             | 345                 | 345              |
| <b>Total</b>                    | <b>\$ 28,389</b>  | <b>\$ 5,262</b>               | <b>\$ (872)</b> | <b>\$ 493</b> | <b>\$ 900</b>       | <b>\$ 34,172</b> |

The following table discloses activity in the allowance for credit losses for the three months ended March 31, 2022.

| <i>(in thousands)</i>           | Beginning Balance | Charge-offs     | Recoveries   | Provision (Benefit) | Ending Balance   |
|---------------------------------|-------------------|-----------------|--------------|---------------------|------------------|
| <b>Real estate:</b>             |                   |                 |              |                     |                  |
| Commercial                      | \$ 12,869         | \$ —            | \$ —         | \$ 999              | \$ 13,868        |
| Commercial land and development | 50                | —               | —            | 16                  | 66               |
| Commercial construction         | 371               | —               | —            | 59                  | 430              |
| Residential construction        | 50                | —               | —            | (10)                | 40               |
| Residential                     | 192               | —               | —            | 16                  | 208              |
| Farmland                        | 645               | —               | —            | (34)                | 611              |
| <b>Commercial:</b>              |                   |                 |              |                     |                  |
| Secured                         | 6,859             | (309)           | 46           | 443                 | 7,039            |
| Unsecured                       | 207               | —               | —            | 39                  | 246              |
| Consumer and other              | 889               | (67)            | 41           | 225                 | 1,088            |
| Unallocated                     | 1,111             | —               | —            | (803)               | 308              |
| <b>Total</b>                    | <b>\$ 23,243</b>  | <b>\$ (376)</b> | <b>\$ 87</b> | <b>\$ 950</b>       | <b>\$ 23,904</b> |

### Unfunded Loan Commitment Reserves

Unfunded loan commitment reserves are included in “Interest payable and other liabilities” in the unaudited consolidated balance sheets. Provisions for the unfunded loan commitments are included in “Other operating expenses” in the unaudited consolidated statements of income.

| <i>(in thousands)</i>         | Three months ended |                   |
|-------------------------------|--------------------|-------------------|
|                               | March 31,<br>2023  | March 31,<br>2022 |
| Balance at January 1          | \$ 125             | \$ 102            |
| Effect of adoption of ASC 326 | 1,092              | —                 |
| Balance at March 31           | <u>\$ 1,217</u>    | <u>\$ 102</u>     |

### Pledged Loans

The Company’s FHLB line of credit is secured under terms of a collateral agreement by a pledge of certain qualifying loans with unpaid principal balances of \$1.7 billion and \$1.6 billion at March 31, 2023 and December 31, 2022, respectively. In addition, the Company pledges eligible tenants in common loans, which totaled \$46.0 million and \$41.9 million at March 31, 2023 and December 31, 2022, respectively, to secure its borrowing capacity with the Federal Reserve Bank of San Francisco. See Note 6, Long Term Debt and Other Borrowings, for further discussion of these borrowings.

### Note 5: Interest-Bearing Deposits

Interest-bearing deposits consisted of the following as of March 31, 2023 and December 31, 2022:

| <i>(in thousands)</i>                 | March 31,<br>2023   | December 31,<br>2022 |
|---------------------------------------|---------------------|----------------------|
| Interest-bearing transaction accounts | \$ 273,703          | \$ 240,131           |
| Savings accounts                      | 143,110             | 154,581              |
| Money market accounts                 | 1,294,350           | 1,073,532            |
| Time accounts, \$250 or more          | 229,040             | 198,159              |
| Other time accounts                   | 143,530             | 144,355              |
| Total interest-bearing deposits       | <u>\$ 2,083,733</u> | <u>\$ 1,810,758</u>  |

Time deposits totaled \$372.6 million and \$342.5 million as of March 31, 2023 and December 31, 2022, respectively. As of March 31, 2023, scheduled maturities of time deposits for the next five years were as follows:

| <i>(in thousands)</i> |                   |
|-----------------------|-------------------|
| 2023                  | \$ 331,773        |
| 2024                  | 38,560            |
| 2025                  | 916               |
| 2026                  | 1,321             |
| 2027                  | —                 |
| Total time deposits   | <u>\$ 372,570</u> |

Total deposits include deposits offered through the IntraFi Network (formerly Promontory Interfinancial Network) that are comprised of Certificate of Deposit Account Registry Service® (“CDARS”) balances included in time deposits and Insured Cash Sweep® (“ICS”) balances included in money market deposits. Through this network, the Company offers customers access to FDIC-insured deposit products in aggregate amounts exceeding current insurance limits. When funds are deposited through CDARS and ICS on behalf of a customer, the Company has the option of receiving matching deposits through the network’s reciprocal deposit program or placing deposits “one-way,” for which the Company receives no matching deposits. The Company considers the reciprocal deposits to be in-market deposits, as distinguished from traditional out-of-market brokered deposits. There were no one-way deposits at March 31, 2023 and December 31, 2022. The composition of network deposits as of March 31, 2023 and December 31, 2022 was as follows:

| <i>(in thousands)</i>  | March 31,<br>2023 | December 31,<br>2022 |
|------------------------|-------------------|----------------------|
| CDARS                  | \$ 13,046         | \$ 13,248            |
| ICS                    | 512,716           | 272,719              |
| Total network deposits | <u>\$ 525,762</u> | <u>\$ 285,967</u>    |

Interest expense recognized on interest-bearing deposits for periods ended March 31, 2023 and 2022 consisted of the following:

| <i>(in thousands)</i>                               | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2023  | March 31,<br>2022 |
| Interest-bearing transaction accounts               | \$ 430             | \$ 70             |
| Savings accounts                                    | 545                | 25                |
| Money market accounts                               | 5,439              | 367               |
| Time accounts, \$250 or more                        | 1,963              | 59                |
| Other time accounts                                 | 1,001              | 24                |
| Total interest expense on interest-bearing deposits | <u>\$ 9,378</u>    | <u>\$ 545</u>     |

#### Note 6: Long Term Debt and Other Borrowings

**Subordinated notes:** On August 17, 2022, the Company completed a private placement of \$75.0 million of fixed-to-floating rate subordinated notes to certain qualified investors, of which \$19.3 million was purchased by existing or former members of the board of directors and their affiliates. The notes will be used for capital management and general corporate purposes, including, without limitation, the redemption of existing subordinated notes. The subordinated notes have a maturity date of September 1, 2032 and bear interest, payable semi-annually, at the rate of 6.00% per annum until September 1, 2027. On that date, the interest rate will be adjusted to float at a rate equal to the three-month Term SOFR plus 329.0 basis points (8.18% as of March 31, 2023) until maturity. The notes include a right of prepayment, on or after August 17, 2027 or, in certain limited circumstances, before that date. The indebtedness evidenced by the subordinated notes, including principal and interest, is unsecured and subordinate and junior in right to payment to general and secured creditors and depositors of the Company.

The subordinated notes have been structured to qualify as Tier 2 capital for the Company for regulatory capital purposes. Eligible amounts will be phased out by 20% per year beginning five years before the maturity date of the notes. Debt issuance costs incurred in conjunction with the notes were \$1.5 million, of which \$0.1 million has been amortized as of March 31, 2023. The Company reflects debt issuance costs as a direct deduction from the face of the note. The debt issuance costs are amortized into interest expense through the maturity period. At March 31, 2023 and December 31, 2022, the Company’s subordinated debt outstanding was \$73.6 million and \$73.6 million, respectively.

**Other borrowings:** In 2005, and through an amendment in 2014, the Company entered into an agreement with the FHLB which granted the FHLB a blanket lien on all loans receivable (except for construction and agricultural loans) as collateral for a borrowing line. Based on the dollar volume of qualifying loan collateral, the Company had a total financing availability of \$1.1 billion at March 31, 2023 and \$1.0 billion at December 31, 2022. At March 31, 2023 and December 31, 2022, the Company had \$120.0 million and \$100.0 million of outstanding borrowings, respectively. As of March 31, 2023

and December 31, 2022, the Company had letters of credit (“LCs”) issued on its behalf totaling \$666.5 million and \$686.5 million, respectively, as discussed below.

At March 31, 2023 and December 31, 2022, LCs totaling \$186.5 million and \$206.5 million, respectively, were pledged to secure State of California deposits, and LCs totaling \$480.0 million and \$480.0 million, respectively, were pledged to secure local agency deposits. The LCs issued reduced the Company’s available borrowing capacity to \$278.1 million and \$216.3 million as of March 31, 2023 and December 31, 2022, respectively.

At March 31, 2023 and December 31, 2022, the Company had seven unsecured federal funds lines of credit totaling \$190.0 million with seven of its correspondent banks, respectively. There were no amounts outstanding at March 31, 2023 and December 31, 2022.

At March 31, 2023 and December 31, 2022, the Company had the ability to borrow from the Federal Reserve Discount Window. At March 31, 2023 and December 31, 2022, the borrowing capacity under this arrangement was \$76.7 million and \$21.9 million, respectively. There were no amounts outstanding at March 31, 2023 and December 31, 2022. The borrowing line is secured by liens on the Company’s construction and agricultural loan portfolios and certain available-for-sale securities.

#### Note 7: Shareholders’ Equity

##### (a) EPS

Basic EPS is net income divided by the weighted average number of common shares outstanding during the period less average unvested restricted stock awards (“RSAs”). Diluted EPS includes the dilutive effect of additional potential common shares related to unvested RSAs using the treasury stock

method. The Company has two forms of outstanding common stock: common stock and unvested RSAs. Holders of unvested RSAs receive non-forfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings, and therefore the RSAs are considered participating securities. However, under the two-class method, the difference in EPS is not significant for these participating securities.

| <i>(in thousands, except share count and earnings per common share)</i> | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2023  | March 31,<br>2022 |
| Net income  | \$ 13,161          | \$ 9,862          |
| Weighted average basic common shares outstanding                        | 17,150,174         | 17,102,508        |
| Add: Dilutive effects of assumed vesting of restricted stock            | 44,710             | 62,011            |
| Weighted average diluted common shares outstanding                      | 17,194,884         | 17,164,519        |
| Earnings per common share:  |                    |                   |
| Basic EPS   | \$ 0.77            | \$ 0.58           |
| Diluted EPS   | \$ 0.77            | \$ 0.58           |

The Company did not have any anti-dilutive shares at March 31, 2023 or March 31, 2022.

*(b) Dividends*

On January 19, 2023, the board of directors declared a \$0.15 per common share dividend, totaling \$2.6 million.

*(c) Stock-Based Incentive Arrangement*

The Company's stock-based compensation consists of RSAs granted under its historical stock-based incentive arrangement (the "Historical Incentive Plan") and RSAs issued under the Five Star Bancorp 2021 Equity Incentive Plan (the "Equity Incentive Plan"). The Historical Incentive Plan consisted of RSAs for certain executive officers of the Company. The arrangement provided that these executive officers would receive shares of restricted common stock of the Company that vested over three years, with the number of shares granted based upon achieving certain performance objectives. These objectives included, but were not limited to, net income adjusted for the provision for credit losses, deposit growth, efficiency ratio, net interest margin, and asset quality. Compensation expense for RSAs granted under the Historical

Incentive Plan is recognized over the service period, which is equal to the vesting period of the shares based on the fair value of the shares at issue date.

In connection with its IPO in May 2021, the Company granted RSAs under the Equity Incentive Plan to employees, officers, executives, and non-employee directors. Shares granted to non-employee directors vested immediately upon grant, while shares granted to employees, officers, and executives vest ratably over three, five, or seven years (as defined in the respective agreements). Since the completion of the IPO, the Company has granted RSAs under the Equity Incentive Plan to executives and directors, which vest annually over three years and over one year, respectively. All RSAs were granted at the fair value of common stock at the time of the award. The RSAs are considered fixed awards as the number of shares and fair value are known at the date of grant and the fair value at the grant date is amortized over the service period.

Non-cash stock compensation expense recognized for the three months ended March 31, 2023 and 2022 was \$0.2 million and \$0.3 million, respectively.

At March 31, 2023 and 2022, there were 108,363 and 138,856 unvested restricted shares, respectively. As of March 31, 2023, there was approximately \$1.9 million of unrecognized compensation expense related to the 108,363 unvested restricted shares. The holders of unvested RSAs are entitled to dividends at the same per-share ratio as holders of common stock. Tax benefits for dividends paid on unvested RSAs are recorded as tax benefits in the consolidated statements of income with a corresponding decrease to current taxes payable. Such tax benefits are expected to be recognized over the weighted average term remaining on the unvested restricted shares of 3.05 years as of March 31, 2023. The impact of tax benefits for dividends paid on unvested restricted stock on the Company's unaudited consolidated statements of income for the three months ended March 31, 2023 and 2022 was immaterial.

The following table summarizes activity related to restricted shares for the periods indicated:

|                                 | For the three months ended March 31, |  |                |  |
|---------------------------------|--------------------------------------|--|----------------|--|
|                                 | 2023                                 |  | 2022           |  |
|                                 | Shares                               | Weighted Average Grant Date Fair Value | Shares         | Weighted Average Grant Date Fair Value |
| Beginning of the period balance | 96,826                               | \$ 20.34                               | 127,751        | \$ 19.95                               |
| Shares granted                  | 16,978                               | 28.52                                  | 22,201         | 28.50                                  |
| Shares vested                   | (5,441)                              | 24.28                                  | (10,246)       | 24.85                                  |
| Shares forfeited                | —                                    | —                                      | (850)          | 20.00                                  |
| End of the period balance       | <u>108,363</u>                       | <u>\$ 21.43</u>                        | <u>138,856</u> | <u>\$ 20.95</u>                        |

## Note 8: Commitments and Contingencies

### *Financial Instruments with Off-Balance Sheet Risk*

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Substantially all of these commitments are at variable interest rates, based on an index, and have fixed expiration dates.

Off-balance sheet risk to loan loss exists up to the face amount of these instruments, although material losses are not anticipated. The Company uses the same credit policies in making commitments to originate loans and lines of credit as it does for on-balance sheet instruments, including obtaining collateral at exercise of the commitment. The contractual

amounts of unfunded loan commitments and standby letters of credit not reflected in the unaudited consolidated balance sheets were as follows:

| <i>(in thousands)</i>                           | March 31,<br>2023 | December 31,<br>2022 |
|---|-------------------|----------------------|
| Commercial lines of credit                      | \$ 155,762        | \$ 147,021           |
| Undisbursed commercial real estate loans        | 82,286            | 79,121               |
| Undisbursed construction loans                  | 70,599            | 80,726               |
| Agricultural lines of credit                    | 14,449            | 10,399               |
| Undisbursed residential real estate loans       | 9,300             | 8,945                |
| Undisbursed agricultural real estate loans      | 946               | 1,068                |
| Other   | 1,734             | 1,868                |
| Total commitments and standby letters of credit | <u>\$ 335,076</u> | <u>\$ 329,148</u>    |

The Company records an allowance for credit losses on unfunded loan commitments at the consolidated balance sheet date based on estimates of the probability that these commitments will be drawn upon according to historical utilization experience of the different types of commitments and historical loss rates determined for pooled funded loans. The allowance for credit losses on unfunded commitments totaled \$1.2 million as of March 31, 2023 and \$0.1 million as of December 31, 2022, which is recorded in "Interest payable and other liabilities" in the unaudited consolidated balance sheets.

**Concentrations of credit risk:** The Company grants real estate mortgage, real estate construction, commercial, and consumer loans to customers primarily in Northern California. Although the Company has a diversified loan portfolio, a substantial portion is secured by commercial and residential real estate.

In management's judgment, a concentration of loans exists in real estate related loans, which represented approximately 91.61% of the Company's loan portfolio at March 31, 2023 and 91.84% of the Company's loan portfolio at December 31, 2022. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, or a decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on the collectability of these loans. Personal and business incomes represent the primary source of repayment for the majority of these loans.

**Deposit concentrations:** At March 31, 2023, the Company had 84 deposit relationships that exceeded \$5.0 million each, totaling \$1.9 billion, or approximately 64.32% of total deposits. The Company's largest single deposit relationship at March 31, 2023 totaled \$220.9 million, or approximately 7.56% of total deposits. Management maintains the Company's liquidity position and lines of credit with correspondent banks to mitigate the risk of large withdrawals by this group of large depositors.

**Contingencies:** The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

**Correspondent banking agreements:** The Company maintains funds on deposit with other FDIC-insured financial institutions under correspondent banking agreements. Uninsured deposits through these agreements totaled \$22.0 million and \$16.2 million at March 31, 2023 and December 31, 2022, respectively.

#### *Litigation Matters*

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

#### **Note 9: Subsequent Events**

On April 20, 2023, the Board of Directors of the Company authorized a cash dividend of \$0.20 per common share, payable on May 15, 2023 to shareholders of record on May 8, 2023.

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

The following discussion presents management's perspective on our results of operations and financial condition on a consolidated basis. However, because we conduct all of our material business operations through our bank subsidiary, Five Star Bank (the "Bank"), the discussion and analysis relates to activities primarily conducted by the Bank.

Management's discussion of the financial condition and results of operations, which is unaudited, should be read in conjunction with the related unaudited consolidated financial statements and accompanying notes in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and accompanying notes included in the 2022 Annual Report on Form 10-K, which was filed with the SEC on February 24, 2023. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

Unless otherwise indicated, references in this report to "we," "our," "us," "the Company," or "Bancorp" refer to Five Star Bancorp and our consolidated subsidiary. All references to "the Bank" refer to Five Star Bank, our wholly owned subsidiary.

### Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections, and statements of our beliefs concerning future events, business plans, objectives, expected operating results, and the assumptions upon which those statements are based. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "aim," "intend," "plan," or words or phrases of similar meaning. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Such forward-looking statements are based on various assumptions (some of which may be beyond our control) and are subject to risks and uncertainties, which change over time, and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to:

- risks related to the concentration of our business in California, and specifically within Northern California, including risks associated with any downturn in the real estate sector;
- changes in market interest rates that affect the pricing of our loans and deposits, our net interest income, and our borrowers' ability to repay loans;
- changes in the U.S. economy, including an economic slowdown, inflation, deflation, housing prices, employment levels, rate of growth, and general business conditions, including uncertainty regarding the federal government's debt limit or a prolonged shutdown of the federal government;
- uncertain market conditions and economic trends nationally, regionally, and particularly in Northern California and California;
- the impacts related to or resulting from recent bank failures and other economic and industry volatility, including potential increased regulatory requirements and costs and potential impacts to macroeconomic conditions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities, and tax laws and regulations and their application by our regulators, and economic stimulus programs;
- the effects of increased competition from a wide variety of local, regional, national, and other providers of financial and investment services;
- the risks associated with our loan portfolios, and specifically with our commercial real estate loans;
- our ability to maintain adequate liquidity and to maintain capital necessary to fund our growth strategy and operations and to satisfy minimum regulatory capital levels;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses and the value of loan collateral and securities;
- our level of nonperforming assets and the costs associated with resolving problem loans, if any, and complying with government-imposed foreclosure moratoriums;

- our ability to comply with various governmental and regulatory requirements applicable to financial institutions, including supervisory actions by federal and state banking agencies;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- risks associated with unauthorized access, cyber-crime, and other threats to data security;
- our ability to implement, maintain, and improve effective internal controls;
- our ability to attract and retain executive officers and key employees and their customer and community relationships;
- the occurrence or impact of climate change or natural or man-made disasters or calamities, such as wildfires, droughts, and earthquakes; and
- other factors that are discussed in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The foregoing factors could cause results or performance to materially differ from those expressed in our forward-looking statements, should not be considered exhaustive, and should be read together with other cautionary statements that are included in this report and those discussed in the section entitled “Risk Factors” of our 2022 Annual Report on Form 10-K, and other filings we may make with the SEC, copies of which are available from us at no charge. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We disclaim any duty to revise or update the forward-looking statements, whether written or oral, to reflect actual results or changes in the factors affecting the forward-looking statements, except as specifically required by law.

## **Company Overview**

Headquartered in the greater Sacramento metropolitan area of California, Five Star Bancorp is a bank holding company that operates through its wholly owned subsidiary, Five Star Bank, a California state-chartered non-member bank. We provide a broad range of banking products and services to small and medium-sized businesses, professionals, and individuals primarily in Northern California through seven branch offices and one loan production office. Our mission is to strive to become the top business bank in all markets we serve through exceptional service, deep connectivity, and customer empathy. We are dedicated to serving real estate, agricultural, faith-based, and small to medium-sized enterprises. We aim to consistently deliver value that meets or exceeds the expectations of our shareholders, customers, employees, business partners, and community. We refer to our mission as “purpose-driven and integrity-centered banking.” At March 31, 2023, we had total assets of \$3.4 billion, total loans held for investment, net of allowance for credit losses, of \$2.8 billion, and total deposits of \$2.9 billion.

## **Critical Accounting Estimates**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Quarterly Reports on Form 10-Q and, therefore, do not include all footnotes as would be necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders’ equity, and cash flows in conformity with GAAP as contained within the FASB’s ASC and the rules and regulations of the SEC, including the instructions to Regulation S-X. However, these interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders’ equity, and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as filed in our 2022 Annual Report on Form 10-K and the notes thereto.

Our most significant accounting policies and our critical accounting estimates are described in greater detail in Note 1, Basis of Presentation, in our audited consolidated financial statements and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates included in the 2022 Annual Report on Form 10-K. We have identified accounting policies and estimates that, due to the difficult, subjective, or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our unaudited consolidated financial statements to those judgments and assumptions, are critical to an understanding of our consolidated financial condition and results of operations. We believe that the judgments, estimates, and assumptions used in the



preparation of our financial statements are reasonable and appropriate, based on the information available at the time they were made. However, actual results may differ from those estimates, and these differences may be material. There have been no significant changes concerning our critical accounting estimates as described in our 2022 Annual Report on Form 10-K.

Pursuant to the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), as an emerging growth company, we can elect to opt out of the extended transition period for adopting any new or revised accounting standards. We have elected not to opt out of the extended transition period, which means that when a standard is issued or revised and it has different application dates for public and private companies, we may adopt the standard on the application date for private companies.

We have elected to take advantage of the scaled disclosures and other relief under the JOBS Act, and we may take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act, so long as we qualify as an emerging growth company.

## Executive Summary

Net income for the three months ended March 31, 2023 totaled \$13.2 million, compared to net income of \$9.9 million for the three months ended March 31, 2022.

The following are highlights of our operating and financial performance for the periods presented:

- **Deposits.** Total deposits increased by \$138.4 million from \$2.8 billion at December 31, 2022 to \$2.9 billion at March 31, 2023. Deposit increases were primarily attributable to an increase in the number of new deposit relationships, as well as normal fluctuations in some of our large existing accounts. Non-interest-bearing deposits decreased by \$134.6 million in the first three months of 2023 to \$836.7 million, and represented 28.65% of total deposits at March 31, 2023, compared to 34.91% of total deposits at December 31, 2022. Our loan to deposit ratio was 98.66% at March 31, 2023, compared to 100.67% at December 31, 2022.
- **Assets.** Total assets were \$3.4 billion at March 31, 2023, representing a \$170.1 million, or 5.27%, increase compared to \$3.2 billion at December 31, 2022.
- **Loans.** Total loans held for investment were \$2.9 billion at March 31, 2023, compared to \$2.8 billion at December 31, 2022, an increase of \$78.5 million, or 2.81%. The increase was primarily attributable to a \$47.8 million increase in commercial real estate loans, a \$9.7 million increase in commercial construction loans, an \$8.3 million increase in commercial secured loans, and an \$8.0 million increase in commercial land and development loans.
- **Non-accrual Loans.** Credit quality remains strong, with non-accrual loans representing \$0.4 million, or 0.01% of total loans held for investment, at March 31, 2023, compared to \$0.4 million, or 0.01% of total loans held for investment, at December 31, 2022. The ratio of allowance for credit losses to total loans held for investment, or total loans at period end, was 1.19% at March 31, 2023 and 1.02% at December 31, 2022.
- **ROAA and ROAE.** ROAA and ROAE were 1.65% and 20.94%, respectively, for the three months ended March 31, 2023, as compared to ROAA of 1.53% and ROAE of 17.07% for the three months ended March 31, 2022.
- **Net Interest Margin.** Net interest margin was 3.75% for the three months ended March 31, 2023, and 3.60% for the three months ended March 31, 2022. The increase in net interest margin for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 was primarily attributable to interest income resulting from yields earned and loan growth quarter over quarter, which more than offset increases to interest expense from rates paid and deposit growth.
- **Efficiency Ratio.** Efficiency ratio was 36.43% for the three months ended March 31, 2023, down from 39.82% for the corresponding period of 2022. The decrease was primarily attributable to the change in net interest income more than offsetting the change in non-interest expense period-over-period.
- **Capital Ratios.** All capital ratios were above well-capitalized regulatory thresholds as of March 31, 2023. The total risk-based capital ratio for the Company was 12.50% at March 31, 2023, compared to 12.46% at December 31, 2022. The Tier 1 leverage ratio was 8.53% at March 31, 2023, compared to 8.60% at December 31, 2022. For additional information about the regulatory capital requirements applicable to the Company and the Bank, see the section entitled “—Financial Condition Summary—Capital Adequacy” below.
- **Dividends.** The board of directors declared a cash dividend of \$0.15 per share on January 19, 2023.

Highlights of the financial results are presented in the following tables:

(dollars in thousands)

|  | March 31, 2023 | December 31, 2022 |
|--|----------------|-------------------|
| <b>Selected financial condition data:</b>                      |                |                   |
| Total assets   | \$ 3,397,308   | \$ 3,227,159      |
| Total loans held for investment                                | 2,869,848      | 2,791,326         |
| Total deposits   | 2,920,406      | 2,782,004         |
| Total subordinated notes, net                                  | 73,640         | 73,606            |
| Total shareholders' equity                                     | 260,656        | 252,825           |
| <b>Asset quality ratios:</b>                                   |                |                   |
| Allowance for credit losses to total loans held for investment | 1.19 %         | 1.02 %            |
| Allowance for credit losses to nonperforming loans             | 8,167.68 %     | 7,026.98 %        |
| Nonperforming loans to total loans held for investment         | 0.01 %         | 0.01 %            |
| <b>Capital ratios:</b>   |                |                   |
| Total capital (to risk-weighted assets)                        | 12.50 %        | 12.46 %           |
| Tier 1 capital (to risk-weighted assets)                       | 9.02 %         | 8.99 %            |
| Common equity Tier 1 capital (to risk-weighted assets)         | 9.02 %         | 8.99 %            |
| Tier 1 leverage  | 8.53 %         | 8.60 %            |
| Total shareholders' equity to total assets                     | 7.67 %         | 7.83 %            |
| Tangible shareholders' equity to tangible assets <sup>1</sup>  | 7.67 %         | 7.83 %            |

|   | For the three months ended |                   |
|---|----------------------------|-------------------|
|   | March 31,<br>2023          | March 31,<br>2022 |
| <i>(dollars in thousands, except per share data)</i>    |                            |                   |
| <b>Selected operating data:</b>                         |                            |                   |
| Net interest income                                     | \$ 29,148                  | \$ 21,883         |
| Provision for credit losses                             | 900                        | 950               |
| Non-interest income                                     | 1,371                      | 2,164             |
| Non-interest expense                                    | 11,118                     | 9,575             |
| Net income  | 13,161                     | 9,862             |
| Earnings per common share:                              |                            |                   |
| Basic   | \$ 0.77                    | \$ 0.58           |
| Diluted   | \$ 0.77                    | \$ 0.58           |
| <b>Performance and other financial ratios:</b>          |                            |                   |
| ROAA  | 1.65 %                     | 1.53 %            |
| ROAE  | 20.94 %                    | 17.07 %           |
| Net interest margin                                     | 3.75 %                     | 3.60 %            |
| Cost of funds   | 1.53 %                     | 0.17 %            |
| Efficiency ratio  | 36.43 %                    | 39.82 %           |
| Cash dividend payout ratio on common stock <sup>2</sup> | 19.48 %                    | 25.86 %           |

<sup>1</sup> Tangible shareholders' equity to tangible assets is considered a non-GAAP financial measure. See the section entitled "Non-GAAP Financial Measures" for a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measure. Tangible shareholders' equity to tangible assets is defined as total equity less goodwill and other intangible assets, divided by total assets less goodwill and other intangible assets. The most directly comparable GAAP financial measure is total shareholders' equity to total assets. We had no goodwill or other intangible assets as of any of the dates indicated. As a result, tangible shareholders' equity to tangible assets is the same as total shareholders' equity to total assets at the end of each of the periods indicated.

<sup>2</sup> Cash dividend payout ratio on common stock is calculated as dividends on common shares divided by basic earnings per common share.

## RESULTS OF OPERATIONS

The following discussion of our results of operations compares the three months ended March 31, 2023 to the three months ended March 31, 2022. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2023.

### Net Interest Income

Net interest income is the most significant contributor to our net income. Net interest income represents interest income from interest-earning assets, such as loans and investments, less interest expense on interest-bearing liabilities, such as deposits, FHLB advances, subordinated notes, and other borrowings, which are used to fund those assets. In evaluating our net interest income, we measure and monitor yields on our interest-earning assets and interest-bearing liabilities as well as trends in our net interest margin. Net interest margin is a ratio calculated as net interest income divided by total interest-earning assets for the same period. We manage our earning assets and funding sources in order to maximize this margin while limiting credit risk and interest rate sensitivity to our established risk appetite levels. Changes in market interest rates and competition in our market typically have the largest impact on periodic changes in our net interest margin.

Our net interest margin of 3.75% for the three months ended March 31, 2023 increased from 3.60% for the three months ended March 31, 2022. The increase was primarily due to a 142 basis point increase in the average yield on interest-earning assets, which increased from 3.76% for the three months ended March 31, 2022 to 5.18% for the three months ended March 31, 2023, partially offset by a 193 basis point increase in average rates paid on interest-bearing liabilities, which increased from 0.28% for the three months ended March 31, 2022 to 2.21% for the three months ended March 31, 2023.

*Average balance sheet, interest, and yield/rate analysis.* The following table presents average balance sheet information, interest income, interest expense, and the corresponding average yield earned or rates paid for each period reported. The average balances are daily averages and include both performing and nonperforming loans.

|   | For the three months ended<br>March 31, 2023 |                                |                           | For the three months ended<br>March 31, 2022 |                                |                           |
|---|--|--------------------------------|---------------------------|--|--------------------------------|---------------------------|
|   | Average<br>Balance                           | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate | Average<br>Balance                           | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |
| <i>(dollars in thousands)</i>                       |  |                                |                           |  |                                |                           |
| <b>Assets</b>                                       |  |                                |                           |  |                                |                           |
| Interest-earning deposits with banks <sup>1</sup>   | \$ 200,541                                   | \$ 2,167                       | 4.38 %                    | \$ 339,737                                   | \$ 192                         | 0.23 %                    |
| Investment securities <sup>2</sup>                  | 119,489                                      | 650                            | 2.21 %                    | 148,736                                      | 567                            | 1.54 %                    |
| Loans held for investment and sale <sup>1,3</sup>   | 2,836,070                                    | 37,494                         | 5.36 %                    | 1,977,509                                    | 22,112                         | 4.53 %                    |
| Total interest-earning assets <sup>1</sup>          | 3,156,100                                    | 40,311                         | 5.18 %                    | 2,465,982                                    | 22,871                         | 3.76 %                    |
| Interest receivable and other assets, net           | 69,253                                       |                                |                           | 150,116                                      |                                |                           |
| <b>Total assets</b>                                 | <b>\$ 3,225,353</b>                          |                                |                           | <b>\$ 2,616,098</b>                          |                                |                           |
| <b>Liabilities and shareholders' equity</b>         |  |                                |                           |  |                                |                           |
| Interest-bearing transaction accounts               | \$ 379,593                                   | \$ 433                         | 0.46 %                    | \$ 276,690                                   | \$ 70                          | 0.10 %                    |
| Savings accounts                                    | 155,233                                      | 545                            | 1.42 %                    | 90,815                                       | 25                             | 0.11 %                    |
| Money market accounts                               | 1,087,122                                    | 5,436                          | 2.03 %                    | 920,767                                      | 367                            | 0.16 %                    |
| Time accounts                                       | 300,952                                      | 2,964                          | 3.99 %                    | 128,183                                      | 83                             | 0.26 %                    |
| Subordinated debt and other borrowings <sup>1</sup> | 125,691                                      | 1,785                          | 5.76 %                    | 28,393                                       | 443                            | 6.33 %                    |
| Total interest-bearing liabilities                  | 2,048,591                                    | 11,163                         | 2.21 %                    | 1,444,848                                    | 988                            | 0.28 %                    |
| Demand accounts                                     | 901,491                                      |                                |                           | 922,128                                      |                                |                           |
| Interest payable and other liabilities              | 20,344                                       |                                |                           | 14,800                                       |                                |                           |
| Shareholders' equity                                | 254,927                                      |                                |                           | 234,322                                      |                                |                           |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 3,225,353</b>                          |                                |                           | <b>\$ 2,616,098</b>                          |                                |                           |
| Net interest spread <sup>4</sup>                    |  |                                | 2.97 %                    |  |                                | 3.48 %                    |
| Net interest income/margin <sup>5</sup>             |  | \$ 29,148                      | 3.75 %                    |  | \$ 21,883                      | 3.60 %                    |

- <sup>1</sup> Interest income/expense is divided by the actual number of days in the period multiplied by the actual number of days in the year to correspond to stated interest rate terms, where applicable.
- <sup>2</sup> Yields on available-for-sale securities are calculated based on fair value. Investment security interest is earned on 30/360 day basis monthly. Yields are not calculated on a tax-equivalent basis.
- <sup>3</sup> Average loan balance includes both loans held for investment and loans held for sale. Non-accrual loans are included in total loan balances. No adjustment has been made for these loans in the yield calculations. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
- <sup>4</sup> Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
- <sup>5</sup> Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets, then annualized based on the number of days in the given period.

*Analysis of changes in interest income and expenses.* Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average yields/rates. The following table shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the current period's average yield/rate. The effect of rate changes is calculated by multiplying the change in average yield/rate by the previous period's volume. Changes not solely attributable to volume or yields/rates have been allocated in proportion to the respective volume and yield/rate components.

| <i>(dollars in thousands)</i>          | <b>For the three months ended<br/>March 31, 2023 compared to<br/>the three months ended March 31, 2022</b> |                   |              |
|--|--|-------------------|--------------|
|  | <b>Volume</b>  | <b>Yield/Rate</b> | <b>Total</b> |
| Interest-earning deposits with banks   | \$ (1,504)   | \$ 3,479          | \$ 1,975     |
| Investment securities                  | (160)  | 243               | 83           |
| Loans held for investment and sale     | 11,122   | 4,260             | 15,382       |
| Total interest-earning assets          | 9,458  | 7,982             | 17,440       |
| Interest-bearing transaction accounts  | 117  | 246               | 363          |
| Savings accounts                       | 226  | 294               | 520          |
| Money market accounts                  | 832  | 4,237             | 5,069        |
| Time accounts                          | 1,702  | 1,179             | 2,881        |
| Subordinated debt and other borrowings | 1,382  | (40)              | 1,342        |
| Total interest-bearing liabilities     | 4,259  | 5,916             | 10,175       |
| Changes in net interest income/margin  | \$ 5,199   | \$ 2,066          | \$ 7,265     |

*Factors affecting interest income and yields*

Interest income increased by \$17.4 million, or 76.25%, to \$40.3 million for the three months ended March 31, 2023 from \$22.9 million for the corresponding period of 2022 due to the following:

- *Rates.* The average yields on interest-earning assets were 5.18% and 3.76% for the three months ended March 31, 2023 and March 31, 2022, respectively. The increase in yields period-over-period was primarily due to increased rates earned on loans held for investment and sale originated in the current environment of rising rates, and increases in yields earned on interest-earning deposits with banks.
- *Volume.* Average interest-earning assets increased by approximately \$690.1 million period-over-period, driven by new loan originations which drove increases in the average daily balances of loans for the three months ended March 31, 2023.

### *Factors affecting interest expense and rates*

Interest expense increased by \$10.2 million, or 1,029.86%, to \$11.2 million for the three months ended March 31, 2023 from \$1.0 million for the same period of 2022 due to the following:

- *Rates.* The average costs of interest-bearing liabilities were 2.21% and 0.28% for the three months ended March 31, 2023 and March 31, 2022, respectively. The increase in cost period-over-period was due to increases in the rates paid on interest-bearing deposit accounts, with the most significant increases in time and money market accounts. The average cost of subordinated debt and other borrowings decreased from 6.33% to 5.76% for the three months ended March 31, 2022 and March 31, 2023, respectively, due to a reduction of interest expenses as a percentage of the average balance during the three months ended March 31, 2023. Additionally, the cost of funds increased from 0.17% for the quarter ended March 31, 2022 to 1.53% for the quarter ended March 31, 2023.
- *Volume.* Average interest-bearing liabilities increased by \$603.7 million period-over-period, primarily driven by increases in average balances for interest-bearing deposit accounts, with the most substantial average balance increases in time accounts. Average subordinated debt and other borrowings increased by \$97.3 million period-over-period, consisting of FHLB advances which did not occur during the three months ended March 31, 2022, combined with an increase in the average balance of subordinated debt.

### **Provision for Credit Losses**

The provision for credit losses is based on management's assessment of the adequacy of our allowance for credit losses. Factors impacting the provision include inherent risk characteristics in our loan portfolio, the level of nonperforming loans and net charge-offs, both current and historic, local economic and credit conditions, the direction of the change in collateral values, and the funding probability on unfunded lending commitments. The provision for credit losses is charged against earnings in order to maintain our allowance for credit losses, which reflects management's best estimate of forecasted life of loan losses in our loan portfolio at the balance sheet date.

We recorded a \$0.9 million provision for credit losses in the first quarter of 2023, compared to a \$1.0 million provision for credit losses recorded for the same period of 2022. The decrease of \$0.1 million was primarily due to a decline in loan growth during the first quarter of 2023. This decline was partially offset by provisions required for loans designated as watch and substandard, which increased from \$17.0 million as of March 31, 2022 to \$24.6 million as of March 31, 2023.

Beginning January 1, 2023, we adopted ASC 326, which replaced the former "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. The CECL allowance model calculates reserves over the life of the loan and is largely driven by portfolio characteristics, economic outlook, and other key methodology assumptions. Under the CECL model, the calculated allowance for credit losses was \$5.3 million higher on January 1, 2023 than the allowance under the incurred loss model. Utilizing CECL may have an impact on our allowance for credit losses going forward and resulted in a lack of comparability between the 2022 and 2023 quarterly periods.

### **Non-interest Income**

Non-interest income is a secondary contributor to our net income. Non-interest income consists of service charges on deposit accounts, net gain on sale of securities, gain on sale of loans, loan-related fees, FHLB stock dividends, earnings on BOLI, and other income.

The following table details the components of non-interest income for the periods indicated for the three months ended March 31, 2023 compared to three months ended March 31, 2022.

| <i>(dollars in thousands)</i>       | For the three months ended |                | \$ Change | % Change  |
|-------------------------------------|----------------------------|----------------|-----------|-----------|
|                                     | March 31, 2023             | March 31, 2022 |           |           |
| Service charges on deposit accounts | \$ 117                     | \$ 108         | \$ 9      | 8.33 %    |
| Net gain on sale of securities      | —                          | 5              | (5)       | (100.00)% |
| Gain on sale of loans               | 598                        | 918            | (320)     | (34.86)%  |
| Loan-related fees                   | 308                        | 596            | (288)     | (48.32)%  |
| FHLB stock dividends                | 193                        | 102            | 91        | 89.22 %   |
| Earnings on BOLI                    | 102                        | 90             | 12        | 13.33 %   |
| Other income                        | 53                         | 345            | (292)     | (84.64)%  |
| Total non-interest income           | \$ 1,371                   | \$ 2,164       | \$ (793)  | (36.65)%  |

*Gain on sale of loans.* The decrease in gain on sale of loans related primarily to an overall decline in the effective yields on loans sold during the three months ended March 31, 2023 compared to the three months ended March 31, 2022. During the three months ended March 31, 2023, approximately \$12.7 million of loans were sold with an effective yield of 4.72%, as compared to approximately \$11.7 million of loans sold with an effective yield of 7.84% during the three months ended March 31, 2022.

*Loan-related fees.* The decrease in loan-related fees was primarily a result of \$0.3 million of swap referral fees recognized during the three months ended March 31, 2022 which did not recur in the three months ended March 31, 2023.

*Other income.* The decrease in other income resulted primarily from a \$0.3 million gain recorded on a distribution received on an investment in a venture-backed fund during the three months ended March 31, 2022 which did not recur during the three months ended March 31, 2023.

### Non-interest Expense

Non-interest expense includes salaries and employee benefits, occupancy and equipment, data processing and software, FDIC insurance, professional services, advertising and promotional, loan-related expenses, and other operating expenses. In evaluating our level of non-interest expense, we closely monitor the Company's efficiency ratio, which is calculated as non-interest expense divided by the sum of net interest income and non-interest income. We constantly seek to identify ways to streamline our business and operate more efficiently, to reduce our non-interest expense over time as a percentage of our revenue, while continuing to achieve growth in total loans and assets.

Over the past several years, we have invested significant resources in personnel, technology, and infrastructure. As we execute initiatives based on growth, we expect non-interest expense to grow. Non-interest expense has increased throughout the periods presented below; however, we expect our efficiency ratio will improve going forward due, in part, to our past investment in infrastructure.

The following table details the components of non-interest expense for three months ended March 31, 2023 compared to three months ended March 31, 2022.

| <i>(dollars in thousands)</i>     | For the three months ended |                 | \$ Change       | % Change       |
|-----------------------------------|----------------------------|-----------------|-----------------|----------------|
|                                   | March 31, 2023             | March 31, 2022  |                 |                |
| Salaries and employee benefits    | \$ 6,618                   | \$ 5,675        | \$ 943          | 16.62 %        |
| Occupancy and equipment           | 523                        | 520             | 3               | 0.58 %         |
| Data processing and software      | 872                        | 716             | 156             | 21.79 %        |
| FDIC insurance                    | 402                        | 165             | 237             | 143.64 %       |
| Professional services             | 631                        | 554             | 77              | 13.90 %        |
| Advertising and promotional       | 418                        | 344             | 74              | 21.51 %        |
| Loan-related expenses             | 255                        | 278             | (23)            | (8.27)%        |
| Other operating expenses          | 1,399                      | 1,323           | 76              | 5.74 %         |
| <b>Total non-interest expense</b> | <b>\$ 11,118</b>           | <b>\$ 9,575</b> | <b>\$ 1,543</b> | <b>16.11 %</b> |

*Salaries and employee benefits.* The increase in salaries and employee benefits was primarily a result of: (i) a \$0.7 million increase in salaries, insurance, and benefits as a result of a 7.10% increase in headcount and recognition of employer taxes and 401(k) contributions recorded for bonuses and commissions paid during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022; (ii) a \$0.7 million decrease in loan origination costs due to lower loan production; and (iii) a \$0.3 million increase in estimated bonus expense based on increased headcount and salaries. These increases were partially offset by \$0.7 million of lower commission expenses due to lower loan production during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022.

*Data processing and software.* Data processing and software expenses increased, primarily due to: (i) increased usage of our digital banking platform; (ii) higher transaction volumes related to the increased number of loan and deposit accounts; and (iii) increased number of licenses required for new users on our loan origination and documentation system.

*FDIC insurance.* The increase in FDIC insurance related primarily to a final rule adopted by the FDIC to increase initial base deposit insurance assessment rates for insured depository institutions by two basis points, beginning with the first quarterly assessment period in 2023. FDIC insurance also increased for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 due to a \$539.7 million increase in the assessment base period-over-period.

#### **Provision for Income Taxes**

The provision for income tax was \$5.3 million for the three months ended March 31, 2023, compared to \$3.7 million for the three months ended March 31, 2022. Additionally, the provision for income taxes for the three months ended March 31, 2022 included a provision to tax return true-up of approximately \$0.3 million relating to the 2021 tax return filed in 2022, which did not recur during the three months ended March 31, 2023. Effective income tax rates for the three months ended March 31, 2023 and 2022 were 28.86% and 27.07%, respectively. Differences between the Company's effective tax rate and federal and state blended statutory rates are due to certain items, such as tax-exempt income from municipal securities, earnings on BOLI, non-deductible expenses, vesting of stock awards, and benefits from tax credits as compared to pre-tax income.



## FINANCIAL CONDITION SUMMARY

The following discussion compares our financial condition as of March 31, 2023 to our financial condition as of December 31, 2022. The following table summarizes selected components of our unaudited consolidated balance sheets as of March 31, 2023 and December 31, 2022.

| <i>(in thousands)</i>      | <b>March 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|----------------------------|---------------------------|------------------------------|
| Total assets               | \$ 3,397,308              | \$ 3,227,159                 |
| Cash and cash equivalents  | 347,939                   | 259,991                      |
| Total investments          | 118,654                   | 119,744                      |
| Loans held for investment  | 2,869,848                 | 2,791,326                    |
| Total deposits             | 2,920,406                 | 2,782,004                    |
| Subordinated notes, net    | 73,640                    | 73,606                       |
| Total shareholders' equity | 260,656                   | 252,825                      |

### Total Assets

At March 31, 2023, total assets were \$3.4 billion, an increase of \$170.1 million from \$3.2 billion at December 31, 2022, primarily due to an increase in cash and cash equivalents of \$87.9 million and in loans held for investment of \$78.5 million.

### Cash and Cash Equivalents

Total cash and cash equivalents were \$347.9 million at March 31, 2023, an increase of \$87.9 million from \$260.0 million at December 31, 2022. The increase in cash and cash equivalents was primarily due to an increase in deposits of \$138.4 million and an increase in FHLB advances of \$20.0 million, partially offset by loan originations, net of repayments, of \$69.5 million.

### Investment Portfolio

Our investment portfolio is primarily comprised of U.S. government agency securities, mortgage-backed securities, and obligations of states and political subdivisions, which are high-quality liquid investments. We manage our investment portfolio according to written investment policies approved by our board of directors. Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk and interest rate risk that is reflective of the yields obtained on those securities. Most of our securities are classified as available-for-sale, although we have one long-term, fixed rate municipal security classified as held-to-maturity.

Our total securities available-for-sale and held-to-maturity amounted to \$118.7 million at March 31, 2023 and \$119.7 million at December 31, 2022, representing a decrease of \$1.0 million period-over-period. The decrease to available-for-sale securities was primarily due to maturities, prepayments, and calls of \$2.9 million, partially offset by an unrealized gain on securities of \$2.1 million, with the remainder of the change due to amortization on premiums. For the quarter, other comprehensive income increased by \$1.5 million, primarily from our mortgage-backed and municipal securities portfolios, resulting in tax-effected increases from each of those portfolios of \$0.7 million and \$0.8 million, respectively. This unrealized gain was attributable to interest rate changes that occurred during the period.

The following table presents the carrying value of our investment portfolio as of the dates indicated:

| <i>(dollars in thousands)</i>                    | <b>As of</b>          |                   |                          |                   |
|--|-----------------------|-------------------|--------------------------|-------------------|
|  | <b>March 31, 2023</b> |                   | <b>December 31, 2022</b> |                   |
|  | <b>Carrying Value</b> | <b>% of Total</b> | <b>Carrying Value</b>    | <b>% of Total</b> |
| <b>Available-for-sale (at fair value):</b>       |                       |                   |                          |                   |
| U.S. government agencies                         | \$ 13,147             | 11.09 %           | \$ 14,173                | 11.84 %           |
| Mortgage-backed securities                       | 60,969                | 51.38 %           | 61,271                   | 51.17 %           |
| Obligations of states and political subdivisions | 38,871                | 32.76 %           | 38,426                   | 32.09 %           |
| Collateralized mortgage obligations              | 384                   | 0.32 %            | 395                      | 0.33 %            |
| Corporate bonds                                  | 1,769                 | 1.49 %            | 1,723                    | 1.44 %            |
| Total available-for-sale                         | 115,140               | 97.04 %           | 115,988                  | 96.87 %           |
| <b>Held-to-maturity (at amortized cost):</b>     |                       |                   |                          |                   |
| Obligations of states and political subdivisions | 3,514                 | 2.96 %            | 3,756                    | 3.13 %            |
| Total  | \$ 118,654            | 100.00 %          | \$ 119,744               | 100.00 %          |

The following table presents the carrying value of our securities by their stated maturities, as well as the weighted average yields for each maturity range, as of March 31, 2023:

| <i>(dollars in thousands)</i>                    | Due in one year or less |                        | Due after one year through five years |                        | Due after five years through ten years |                        | Due after ten years |                        | Total             |                        |
|--|-------------------------|------------------------|---------------------------------------|------------------------|--|------------------------|---------------------|------------------------|-------------------|------------------------|
|  | Carrying Value          | Weighted Average Yield | Carrying Value                        | Weighted Average Yield | Carrying Value                         | Weighted Average Yield | Carrying Value      | Weighted Average Yield | Carrying Value    | Weighted Average Yield |
| <b>Available-for-sale:</b>                       |                         |                        |                                       |                        |  |                        |                     |                        |                   |                        |
| U.S. government agencies                         | \$ —                    | — %                    | \$ 1,004                              | 3.09 %                 | \$ 2,094                               | 4.84 %                 | \$ 10,049           | 4.48 %                 | \$ 13,147         | 4.43 %                 |
| Mortgage-backed securities                       | —                       | — %                    | —                                     | — %                    | 2                                      | 6.94 %                 | 60,967              | 1.68 %                 | 60,969            | 1.68 %                 |
| Obligations of states and political subdivisions | —                       | — %                    | —                                     | — %                    | 5,307                                  | 1.62 %                 | 33,564              | 1.76 %                 | 38,871            | 1.74 %                 |
| Collateralized mortgage obligations              | —                       | — %                    | —                                     | — %                    | 384                                    | 1.76 %                 | —                   | — %                    | 384               | 1.76 %                 |
| Corporate bonds                                  | —                       | — %                    | 1,769                                 | 1.25 %                 | —                                      | — %                    | —                   | — %                    | 1,769             | 1.25 %                 |
| Total available-for-sale                         | —                       | — %                    | 2,773                                 | 1.91 %                 | 7,787                                  | 2.49 %                 | 104,580             | 1.98 %                 | 115,140           | 2.01 %                 |
| <b>Held-to-maturity:</b>                         |                         |                        |                                       |                        |  |                        |                     |                        |                   |                        |
| Obligations of states and political subdivisions | 354                     | 6.00 %                 | 950                                   | 6.00 %                 | 1,375                                  | 6.00 %                 | 835                 | 6.00 %                 | 3,514             | 6.00 %                 |
| <b>Total</b>                                     | <b>\$ 354</b>           | <b>6.00 %</b>          | <b>\$ 3,723</b>                       | <b>2.96 %</b>          | <b>\$ 9,162</b>                        | <b>3.02 %</b>          | <b>\$ 105,415</b>   | <b>2.01 %</b>          | <b>\$ 118,654</b> | <b>2.13 %</b>          |

The following table presents the carrying value of our securities by their stated maturities, as well as the weighted average yields for each maturity range, as of December 31, 2022:

| <i>(dollars in thousands)</i>                    | Due in one year or less |                        | Due after one year through five years |                        | Due after five years through ten years |                        | Due after ten years |                        | Total             |                        |
|--|-------------------------|------------------------|---------------------------------------|------------------------|--|------------------------|---------------------|------------------------|-------------------|------------------------|
|  | Carrying Value          | Weighted Average Yield | Carrying Value                        | Weighted Average Yield | Carrying Value                         | Weighted Average Yield | Carrying Value      | Weighted Average Yield | Carrying Value    | Weighted Average Yield |
| <b>Available-for-sale:</b>                       |                         |                        |                                       |                        |  |                        |                     |                        |                   |                        |
| U.S. government agencies                         | \$ —                    | — %                    | \$ 849                                | 1.98 %                 | \$ 2,625                               | 3.61 %                 | \$ 10,699           | 2.90 %                 | \$ 14,173         | 2.98 %                 |
| Mortgage-backed securities                       | —                       | — %                    | —                                     | — %                    | 2                                      | 6.94 %                 | 61,269              | 1.67 %                 | 61,271            | 1.67 %                 |
| Obligations of states and political subdivisions | 501                     | 2.80 %                 | —                                     | — %                    | 4,761                                  | 1.63 %                 | 33,164              | 1.76 %                 | 38,426            | 1.76 %                 |
| Collateralized mortgage obligations              | —                       | — %                    | —                                     | — %                    | —                                      | — %                    | 395                 | 1.76 %                 | 395               | 1.76 %                 |
| Corporate bonds                                  | —                       | — %                    | 1,723                                 | 1.25 %                 | —                                      | — %                    | —                   | — %                    | 1,723             | 1.25 %                 |
| <b>Total available-for-sale</b>                  | <b>501</b>              | <b>2.80 %</b>          | <b>2,572</b>                          | <b>1.49 %</b>          | <b>7,388</b>                           | <b>2.33 %</b>          | <b>105,527</b>      | <b>1.82 %</b>          | <b>115,988</b>    | <b>1.85 %</b>          |
| <b>Held-to-maturity:</b>                         |                         |                        |                                       |                        |  |                        |                     |                        |                   |                        |
| Obligations of states and political subdivisions | 417                     | 6.00 %                 | 1,015                                 | 6.00 %                 | 1,470                                  | 6.00 %                 | 854                 | 6.00 %                 | 3,756             | 6.00 %                 |
| <b>Total</b>                                     | <b>\$ 918</b>           | <b>4.25 %</b>          | <b>\$ 3,587</b>                       | <b>2.77 %</b>          | <b>\$ 8,858</b>                        | <b>2.94 %</b>          | <b>\$ 106,381</b>   | <b>1.86 %</b>          | <b>\$ 119,744</b> | <b>1.98 %</b>          |

Weighted average yield for securities available-for-sale is the projected yield to maturity given current cash flow projections for U.S. government agency securities, mortgage-backed securities, and collateralized mortgage obligations. For callable municipal securities and corporate bonds, weighted average yield is a yield to worst. Weighted average yield for securities held-to-maturity is the stated coupon of the bond.

## Loan Portfolio

Our loan portfolio is our largest class of interest-earning assets and typically provides higher yields than other types of interest-earning assets. Associated with the higher yields is an inherent amount of credit risk, which we attempt to mitigate with strong underwriting. As of March 31, 2023 and December 31, 2022, our total loans amounted to \$2.9 billion and \$2.8 billion, respectively. The following table presents the balance and associated percentage of each major product type within our portfolio as of the dates indicated.

| <i>(dollars in thousands)</i>    | As of          |            |                   |            |
|----------------------------------|----------------|------------|-------------------|------------|
|                                  | March 31, 2023 |            | December 31, 2022 |            |
|                                  | Amount         | % of Loans | Amount            | % of Loans |
| Loans held for investment:       |                |            |                   |            |
| Real estate:                     |                |            |                   |            |
| Commercial                       | \$ 2,442,520   | 84.71 %    | \$ 2,394,674      | 85.44 %    |
| Commercial land and development  | 15,475         | 0.54 %     | 7,477             | 0.27 %     |
| Commercial construction          | 98,415         | 3.41 %     | 88,669            | 3.16 %     |
| Residential construction         | 9,410          | 0.33 %     | 6,693             | 0.24 %     |
| Residential                      | 23,862         | 0.83 %     | 24,230            | 0.86 %     |
| Farmland                         | 51,616         | 1.79 %     | 52,478            | 1.87 %     |
| Commercial:                      |                |            |                   |            |
| Secured                          | 173,500        | 6.02 %     | 165,186           | 5.89 %     |
| Unsecured                        | 24,776         | 0.86 %     | 25,431            | 0.91 %     |
| Consumer and other               | 32,378         | 1.12 %     | 28,628            | 1.02 %     |
| Loans held for investment, gross | 2,871,952      | 99.61 %    | 2,793,466         | 99.66 %    |
| Loans held for sale:             |                |            |                   |            |
| Commercial                       | 11,315         | 0.39 %     | 9,416             | 0.34 %     |
| Total loans, gross               | 2,883,267      | 100.00 %   | 2,802,882         | 100.00 %   |
| Net deferred loan fees           | (2,104)        |            | (2,140)           |            |
| Total loans                      | \$ 2,881,163   |            | \$ 2,800,742      |            |

Commercial real estate loans consist of term loans secured by a mortgage lien on the real property, such as office and industrial buildings, manufactured home communities, self-storage facilities, hospitality properties, faith-based properties, retail shopping centers, and apartment buildings, as well as commercial real estate construction loans that are offered to builders and developers.

Commercial land and development and commercial construction loans consist of loans made to fund commercial land acquisition and development and commercial construction, respectively. The real estate purchased with these loans is generally located in or near our market.

Commercial loans consist of financing for commercial purposes in various lines of business, including manufacturing, service industry, and professional service areas. Commercial loans can be secured or unsecured but are generally secured with the assets of the company and/or the personal guaranty of the business owner(s).

Residential real estate and construction real estate loans consist of loans secured by single-family and multifamily residential properties, which are both owner-occupied and investor-owned.

The following tables present the commercial real estate loan balance, associated percentage of commercial real estate concentrations, estimated real estate collateral values, and related loan-to-value (“LTV”) ranges by collateral type as of the dates indicated. Revolving lines of credit with zero balance and 0.00% LTV are excluded from this table. Collateral values are determined at origination using third-party real estate appraisals or evaluations. Updated appraisals, which are included in the table below, are obtained for loans that are downgraded to watch or substandard. Loans over \$1.0 million are reviewed annually, at which time an internal assessment of collateral values is completed.

| <i>(dollars in thousands)</i> | <b>Loan Balance</b> | <b>% of Commercial Real Estate</b> | <b>Collateral Value</b> | <b>Minimum LTV</b> | <b>Maximum LTV</b> |
|-------------------------------|---------------------|------------------------------------|-------------------------|--------------------|--------------------|
| <b>March 31, 2023</b>         |                     |                                    |                         |                    |                    |
| Manufactured home community   | \$ 709,015          | 29.03 %                            | \$ 1,230,431            | 17.03 %            | 77.99 %            |
| RV Park                       | 304,840             | 12.48 %                            | 524,891                 | 18.56 %            | 80.67 %            |
| Retail                        | 266,740             | 10.92 %                            | 494,906                 | 14.55 %            | 82.95 %            |
| Multifamily                   | 201,562             | 8.25 %                             | 402,384                 | 13.93 %            | 75.00 %            |
| Industrial                    | 171,456             | 7.02 %                             | 410,282                 | 9.67 %             | 75.00 %            |
| Mini storage                  | 157,339             | 6.44 %                             | 305,885                 | 19.15 %            | 70.00 %            |
| Faith-based                   | 151,632             | 6.21 %                             | 404,559                 | 2.43 %             | 73.12 %            |
| Office                        | 141,501             | 5.79 %                             | 305,301                 | 4.88 %             | 74.23 %            |
| All other types <sup>1</sup>  | 338,435             | 13.86 %                            | 699,599                 | 4.00 %             | 152.76 %           |
| <b>Total</b>                  | <b>\$ 2,442,520</b> | <b>100.00 %</b>                    | <b>\$ 4,778,238</b>     | <b>2.43 %</b>      | <b>152.76 %</b>    |
| <b>December 31, 2022</b>      |                     |                                    |                         |                    |                    |
| Manufactured home community   | \$ 673,891          | 28.14 %                            | \$ 1,174,642            | 17.10 %            | 78.19 %            |
| RV Park                       | 292,886             | 12.23 %                            | 506,041                 | 18.64 %            | 77.89 %            |
| Retail                        | 264,599             | 11.05 %                            | 490,291                 | 16.48 %            | 73.93 %            |
| Multifamily                   | 202,203             | 8.44 %                             | 459,695                 | 14.19 %            | 75.00 %            |
| Industrial                    | 166,403             | 6.95 %                             | 366,291                 | 10.77 %            | 75.00 %            |
| Mini storage                  | 158,650             | 6.63 %                             | 289,820                 | 20.20 %            | 70.04 %            |
| Faith-based                   | 146,740             | 6.13 %                             | 383,321                 | 3.19 %             | 73.55 %            |
| Office                        | 145,899             | 6.09 %                             | 310,248                 | 6.66 %             | 74.68 %            |
| All other types <sup>1</sup>  | 343,403             | 14.34 %                            | 704,984                 | — %                | 152.96 %           |
| <b>Total</b>                  | <b>\$ 2,394,674</b> | <b>100.00 %</b>                    | <b>\$ 4,685,333</b>     | <b>— %</b>         | <b>152.96 %</b>    |

<sup>1</sup> Types of collateral in the “all other types” category are those that individually make up less than 5.00% commercial real estate concentration and include hospitality properties, auto dealerships, car washes, assisted living communities, country clubs, gas stations/convenience stores, medical offices, special purpose properties, mortuaries, restaurants, and schools.

Over the past several years, we have experienced significant growth in our loan portfolio, although the relative composition of the portfolio has not changed significantly. Our primary focus remains commercial real estate lending (including commercial, commercial land and development, and commercial construction), which constitutes 89.08% of loans held for investment at March 31, 2023. Commercial secured lending represents 6.05% of loans held for investment at March 31, 2023. We sell the guaranteed portion of all SBA 7(a) loans in the secondary market and will continue to do so as long as market conditions continue to be favorable.

We recognize that our commercial real estate loan concentration is significant within our balance sheet. Commercial real estate loan balances as a percentage of risk-based capital were 673.90% and 680.34% as of March 31, 2023 and December 31, 2022, respectively. We have established internal concentration limits in the loan portfolio for commercial real estate loans by sector (e.g., manufactured home communities, self-storage, hospitality, etc.). All loan sectors were within our established limits as of March 31, 2023. Additionally, our loans are geographically concentrated with borrowers and collateral properties primarily in California.

We believe that our past success is attributable to focusing on products and markets where we have significant expertise. Given our concentrations, we have established strong risk management practices, including risk-based lending standards, self-established product and geographical limits, annual evaluations of income property loans, and semi-annual top-down and bottom-up stress testing. We expect to continue growing our loan portfolio. We do not expect our product or geographic concentrations to materially change.

The following table sets forth the contractual maturities of our loan portfolio as of March 31, 2023:

| <i>(in thousands)</i>           | <b>Due in 1<br/>year or less</b> | <b>Due after 1<br/>year through<br/>5 years</b> | <b>Due after 5<br/>years through<br/>15 years</b> | <b>Due after<br/>15 years</b> | <b>Total</b>        |
|---------------------------------|----------------------------------|---|---|-------------------------------|---------------------|
| <b>Real estate:</b>             |                                  |   |   |                               |                     |
| Commercial                      | \$ 18,853                        | \$ 233,844                                      | \$ 2,126,171                                      | \$ 63,652                     | \$ 2,442,520        |
| Commercial land and development | 1,536                            | 13,132  | 807   | —                             | 15,475              |
| Commercial construction         | 2,978                            | 41,325  | 54,112  | —                             | 98,415              |
| Residential construction        | 1,443                            | 6,267   | 1,700   | —                             | 9,410               |
| Residential                     | 37                               | 6,611   | 16,225  | 989                           | 23,862              |
| Farmland                        | 1,431                            | 4,490   | 45,695  | —                             | 51,616              |
| <b>Commercial:</b>              |                                  |   |   |                               |                     |
| Secured                         | 39,609                           | 44,504  | 97,487  | 3,215                         | 184,815             |
| Unsecured                       | 696                              | 10,644  | 13,436  | —                             | 24,776              |
| Consumer and other              | 1,338                            | 7,742   | 23,298  | —                             | 32,378              |
| <b>Total</b>                    | <b>\$ 67,921</b>                 | <b>\$ 368,559</b>                               | <b>\$ 2,378,931</b>                               | <b>\$ 67,856</b>              | <b>\$ 2,883,267</b> |

The following table sets forth the contractual maturities of our loan portfolio as of December 31, 2022:

| <i>(in thousands)</i>           | <b>Due in 1<br/>year or less</b> | <b>Due after 1<br/>year through<br/>5 years</b> | <b>Due after 5<br/>years through<br/>15 years</b> | <b>Due after<br/>15 years</b> | <b>Total</b>        |
|---------------------------------|----------------------------------|---|---|-------------------------------|---------------------|
| <b>Real estate:</b>             |                                  |   |   |                               |                     |
| Commercial                      | \$ 19,406                        | \$ 227,519                                      | \$ 2,083,818                                      | \$ 63,931                     | \$ 2,394,674        |
| Commercial land and development | 1,611                            | 5,053   | 813   | —                             | 7,477               |
| Commercial construction         | 1,957                            | 37,510  | 49,202  | —                             | 88,669              |
| Residential construction        | 594                              | 4,783   | 1,316   | —                             | 6,693               |
| Residential                     | 348                              | 6,635   | 16,248  | 999                           | 24,230              |
| Farmland                        | 992                              | 5,685   | 45,801  | —                             | 52,478              |
| <b>Commercial:</b>              |                                  |   |   |                               |                     |
| Secured                         | 36,154                           | 46,814  | 88,418  | 3,216                         | 174,602             |
| Unsecured                       | 55                               | 10,347  | 15,029  | —                             | 25,431              |
| Consumer and other              | 1,321                            | 8,234   | 19,067  | 6                             | 28,628              |
| <b>Total</b>                    | <b>\$ 62,438</b>                 | <b>\$ 352,580</b>                               | <b>\$ 2,319,712</b>                               | <b>\$ 68,152</b>              | <b>\$ 2,802,882</b> |

The following table sets forth the sensitivity to interest rate changes of our loan portfolio as of March 31, 2023:

| <i>(in thousands)</i>           | <b>Fixed Interest Rates</b> | <b>Floating or Adjustable Rates</b> | <b>Total</b>        |
|---------------------------------|-----------------------------|-------------------------------------|---------------------|
| <b>Real estate:</b>             |                             |                                     |                     |
| Commercial                      | \$ 558,746                  | \$ 1,883,774                        | \$ 2,442,520        |
| Commercial land and development | 1,502                       | 13,973                              | 15,475              |
| Commercial construction         | 1,405                       | 97,010                              | 98,415              |
| Residential construction        | 3,593                       | 5,817                               | 9,410               |
| Residential                     | 1,363                       | 22,499                              | 23,862              |
| Farmland                        | 5,802                       | 45,814                              | 51,616              |
| <b>Commercial:</b>              |                             |                                     |                     |
| Secured                         | 40,740                      | 144,075                             | 184,815             |
| Unsecured                       | 19,829                      | 4,947                               | 24,776              |
| Consumer and other              | 32,378                      | —                                   | 32,378              |
| <b>Total</b>                    | <b>\$ 665,358</b>           | <b>\$ 2,217,909</b>                 | <b>\$ 2,883,267</b> |

The following table sets forth the sensitivity to interest rate changes of our loan portfolio as of December 31, 2022:

| <i>(in thousands)</i>           | <b>Fixed Interest Rates</b> | <b>Floating or Adjustable Rates</b> | <b>Total</b>        |
|---------------------------------|-----------------------------|-------------------------------------|---------------------|
| <b>Real estate:</b>             |                             |                                     |                     |
| Commercial                      | \$ 552,206                  | \$ 1,842,468                        | \$ 2,394,674        |
| Commercial land and development | 1,514                       | 5,963                               | 7,477               |
| Commercial construction         | 1,405                       | 87,264                              | 88,669              |
| Residential construction        | 3,366                       | 3,327                               | 6,693               |
| Residential                     | 1,531                       | 22,699                              | 24,230              |
| Farmland                        | 6,261                       | 46,217                              | 52,478              |
| <b>Commercial:</b>              |                             |                                     |                     |
| Secured                         | 37,517                      | 137,085                             | 174,602             |
| Unsecured                       | 20,607                      | 4,824                               | 25,431              |
| Consumer and other              | 28,628                      | —                                   | 28,628              |
| <b>Total</b>                    | <b>\$ 653,035</b>           | <b>\$ 2,149,847</b>                 | <b>\$ 2,802,882</b> |

### Asset Quality

We manage the quality of our loans based upon trends at the overall loan portfolio level as well as within each product type. We measure and monitor key factors that include the level and trend of classified, delinquent, non-accrual, and nonperforming assets, collateral coverage, credit scores, and debt service coverage, where applicable. These metrics directly impact our evaluation of the adequacy of our allowance for credit losses.

Our primary objective is to maintain a high level of asset quality in our loan portfolio. We believe our underwriting practices and policies, established by experienced professionals, appropriately govern the risk profile for our loan portfolio. These policies are continually evaluated and updated as necessary. All loans are assessed and assigned a risk classification at origination based on underlying characteristics of the transaction, such as collateral cash flow, collateral coverage, and borrower strength. We believe that we have a comprehensive methodology to proactively monitor our credit quality after the origination process. Particular emphasis is placed on our commercial portfolio, where risk assessments are reevaluated as a result of reviewing commercial property operating statements and borrower financials. On an ongoing basis, we also monitor payment performance, delinquencies, and tax and property insurance compliance. We design our practices to facilitate the early detection and remediation of problems within our loan portfolio. Assigned risk classifications are an integral part of management's assessment of the adequacy of our allowance for credit losses. We periodically employ the



use of an independent consulting firm to evaluate our underwriting and risk assessment process. Like other financial institutions, we are subject to the risk that our loan portfolio will be exposed to increasing pressures from deteriorating borrower credit due to general economic conditions and rising interest rates.

#### Nonperforming Assets

Our nonperforming assets consist of nonperforming loans and foreclosed real estate, if any. Nonperforming loans consist of non-accrual loans and loans contractually past due by 90 days or more and still accruing. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

#### SBA Loans

During the three months ended March 31, 2023, the Company sold 55 SBA 7(a) loans with government guaranteed portions totaling \$12.7 million. The Company received gross proceeds of \$13.3 million on the loans sold during the three months ended March 31, 2023, resulting in the recognition of net gains on sale of \$0.6 million during the same period.

#### Non-accrual Loans

The following table provides details of our nonperforming and restructured assets and certain other related information as of the dates presented:

| <i>(dollars in thousands)</i>   | As of          |                   |
|---|----------------|-------------------|
|   | March 31, 2023 | December 31, 2022 |
| Non-accrual loans:  |                |                   |
| Real estate:  |                |                   |
| Commercial  | \$ 102         | \$ 106            |
| Residential   | 175            | 175               |
| Commercial:   |                |                   |
| Secured   | 118            | 123               |
| Consumer and other  | 23             | —                 |
| Total non-accrual loans   | 418            | 404               |
| Loans past due 90 days or more and still accruing:                                |                |                   |
| Total loans past due and still accruing   | —              | —                 |
| Total nonperforming loans   | 418            | 404               |
| Real estate owned   | —              | —                 |
| Total nonperforming assets  | \$ 418         | \$ 404            |
| Performing LMs (not included above)   | \$ —           | \$ —              |
| Allowance for credit losses to period end nonperforming loans                     | 8,167.68 %     | 7,026.98 %        |
| Nonperforming loans to loans held for investment <sup>1</sup>                     | 0.01 %         | 0.01 %            |
| Nonperforming assets to total assets  | 0.01 %         | 0.01 %            |
| Nonperforming loans plus performing LMs to loans held for investment <sup>1</sup> | 0.01 %         | 0.01 %            |

<sup>1</sup> Loans held for investment are equivalent to total loans outstanding at period end.

The ratio of nonperforming loans to loans held for investment remained consistent at 0.01% as of December 31, 2022 and March 31, 2023.

#### Potential Problem Loans

We utilize a risk grading system for our loans to aid us in evaluating the overall credit quality of our real estate loan portfolio and assessing the adequacy of our allowance for credit losses. All loans are grouped into a risk category at the time of origination. Commercial real estate loans over \$1.0 million are reevaluated at least annually for proper classification in conjunction with our review of property and borrower financial information. All loans are reevaluated for proper risk grading as new information such as payment patterns, collateral condition, and other relevant information comes to our attention.

The banking industry defines loans graded substandard or doubtful as “classified” loans. The following table shows our levels of classified loans as of the periods indicated:

| <i>(in thousands)</i>           | <b>Pass</b>         | <b>Watch</b>     | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b>        |
|---------------------------------|---------------------|------------------|--------------------|-----------------|---------------------|
| <b>March 31, 2023</b>           |                     |                  |                    |                 |                     |
| Real estate:                    |                     |                  |                    |                 |                     |
| Commercial                      | \$ 2,425,747        | \$ 16,671        | \$ 102             | \$ —            | \$ 2,442,520        |
| Commercial land and development | 15,475              | —                | —                  | —               | 15,475              |
| Commercial construction         | 92,515              | 5,900            | —                  | —               | 98,415              |
| Residential construction        | 9,410               | —                | —                  | —               | 9,410               |
| Residential                     | 23,687              | —                | 175                | —               | 23,862              |
| Farmland                        | 51,616              | —                | —                  | —               | 51,616              |
| Commercial:                     |                     |                  |                    |                 |                     |
| Secured                         | 171,807             | 1,575            | 118                | —               | 173,500             |
| Unsecured                       | 24,776              | —                | —                  | —               | 24,776              |
| Consumer                        | 32,355              | —                | 23                 | —               | 32,378              |
| <b>Total</b>                    | <b>\$ 2,847,388</b> | <b>\$ 24,146</b> | <b>\$ 418</b>      | <b>\$ —</b>     | <b>\$ 2,871,952</b> |
| <b>December 31, 2022</b>        |                     |                  |                    |                 |                     |
| Real estate:                    |                     |                  |                    |                 |                     |
| Commercial                      | \$ 2,379,766        | \$ 14,802        | \$ 106             | \$ —            | \$ 2,394,674        |
| Commercial land and development | 7,477               | —                | —                  | —               | 7,477               |
| Commercial construction         | 82,769              | 5,900            | —                  | —               | 88,669              |
| Residential construction        | 6,693               | —                | —                  | —               | 6,693               |
| Residential                     | 24,055              | —                | 175                | —               | 24,230              |
| Farmland                        | 52,478              | —                | —                  | —               | 52,478              |
| Commercial:                     |                     |                  |                    |                 |                     |
| Secured                         | 163,879             | 1,184            | 123                | —               | 165,186             |
| Unsecured                       | 25,431              | —                | —                  | —               | 25,431              |
| Consumer                        | 28,602              | —                | 26                 | —               | 28,628              |
| <b>Total</b>                    | <b>\$ 2,771,150</b> | <b>\$ 21,886</b> | <b>\$ 430</b>      | <b>\$ —</b>     | <b>\$ 2,793,466</b> |

Loans designated as watch and substandard, which are not considered adversely classified, increased to \$24.6 million at March 31, 2023 from \$22.3 million at December 31, 2022. Loans designated as watch increased while loans designated substandard decreased period-over-period due to additional commercial real estate loans designated as watch at March 31, 2023, partly offset by an improvement in the risk grade of some commercial real estate loans designated as watch at December 31, 2022. This resulted in an increase in the reserve overall. There were no loans with doubtful risk grades at March 31, 2023 or December 31, 2022.

### Allowance for Credit Losses

The allowance for credit losses is established through a provision for credit losses charged to operations. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries of previously charged-off amounts, if any, are credited to the allowance for credit losses.

The allowance for credit losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

At March 31, 2023, the Company's allowance for credit losses was \$34.2 million, as compared to \$28.4 million at December 31, 2022. The \$5.8 million increase in the allowance is due to a \$5.3 million adjustment recorded in connection with the adoption of ASC 326 and a \$0.9 million provision for credit losses recorded during the three months ended March 31, 2023, partially offset by net charge-offs of \$0.4 million during the same period.

While the entire allowance for credit losses is available to absorb losses from any and all loans, the following table represents management's allocation of our allowance for credit losses by loan category, and the percentage of the allowance for credit losses in each category, for the periods indicated.

| <i>(in thousands)</i>                    | <b>March 31, 2023</b> |                   | <b>December 31, 2022</b> |                   |
|--|-----------------------|-------------------|--------------------------|-------------------|
|  | <b>Amount</b>         | <b>% of Total</b> | <b>Amount</b>            | <b>% of Total</b> |
| Real estate:                             |                       |                   |                          |                   |
| Commercial                               | \$ 26,846             | 78.56 %           | \$ 19,216                | 67.69 %           |
| Commercial land and development          | 224                   | 0.66 %            | 54                       | 0.19 %            |
| Commercial construction                  | 1,423                 | 4.16 %            | 645                      | 2.27 %            |
| Residential construction                 | 173                   | 0.51 %            | 49                       | 0.17 %            |
| Residential                              | 179                   | 0.52 %            | 175                      | 0.62 %            |
| Farmland                                 | 217                   | 0.64 %            | 644                      | 2.27 %            |
| Commercial:                              |                       |                   |                          |                   |
| Secured                                  | 4,215                 | 12.33 %           | 7,098                    | 25.00 %           |
| Unsecured                                | 150                   | 0.44 %            | 116                      | 0.41 %            |
| Consumer and other                       | 400                   | 1.17 %            | 347                      | 1.22 %            |
| Unallocated                              | 345                   | 1.01 %            | 45                       | 0.16 %            |
| <b>Total allowance for credit losses</b> | <b>\$ 34,172</b>      | <b>100.00 %</b>   | <b>\$ 28,389</b>         | <b>100.00 %</b>   |

The ratio of allowance for credit losses to total loans held for investment was 1.19% at March 31, 2023, compared to 1.02% at December 31, 2022. Nonperforming loans totaled \$0.4 million, or 0.01% of total loans held for investment, at both March 31, 2023 and December 31, 2022.

The following table provides information on the activity within the allowance for credit losses as of and for the periods indicated:

| <i>(dollars in thousands)</i>                            | <b>As of and for the three months ended</b> |   |                       |   |
|--|---|---|-----------------------|---|
|  | <b>March 31, 2023</b>                       |   | <b>March 31, 2022</b> |   |
|  | <b>Activity</b>                             | <b>% of<br/>Average Loans Held<br/>for Investment</b> | <b>Activity</b>       | <b>% of<br/>Average Loans Held<br/>for Investment</b> |
| Average loans held for investment                        | \$ 2,826,035                                |   | \$ 1,970,311          |   |
| Allowance for credit losses (beginning of period)        | \$ 28,389                                   |   | \$ 23,243             |   |
| Effect of adoption of ASC 326                            | 5,262                                       |   | —                     |   |
| Net (charge-offs) recoveries:                            |   |   |                       |   |
| Commercial:  |   |   |                       |   |
| Secured  | (396)                                       | (0.01)%   | (263)                 | (0.01)%   |
| Consumer and other                                       | 17  | — %   | (26)                  | — %   |
| Net charge-offs  | (379)                                       | (0.01)%   | (289)                 | (0.01)%   |
| Provision for credit losses                              | 900   |   | 950                   |   |
| Allowance for credit losses (end of period)              | <u>\$ 34,172</u>                            |   | <u>\$ 23,904</u>      |   |
| Loans held for investment                                | <u>\$ 2,869,848</u>                         |   | <u>\$ 2,080,158</u>   |   |
| Allowance for credit losses to loans held for investment | <u>1.19 %</u>                               |   | <u>1.15 %</u>         |   |

## Liabilities

During the first three months of 2023, total liabilities increased by \$162.3 million from \$3.0 billion as of December 31, 2022 to \$3.1 billion as of March 31, 2023. This increase was primarily due to an increase in total deposits of \$138.4 million, comprised of an increase of \$273.0 million in interest-bearing deposits, partially offset by a decrease of \$134.6 million in non-interest-bearing deposits, as well as increases in FHLB advances of \$20.0 million.

## Deposits

Representing 93.11% of our total liabilities as of March 31, 2023, deposits are our primary source of funding for our business operations.

Total deposits increased by \$138.4 million, or 4.97%, to \$2.9 billion at March 31, 2023 from \$2.8 billion at December 31, 2022. Deposit increases were primarily attributable to an increase in the number of new relationships, as well as normal fluctuations in some of our larger accounts. Non-interest-bearing deposits decreased by \$134.6 million from December 31, 2022 to \$836.7 million and represented 28.65% of total deposits at March 31, 2023, compared to 34.91% of total deposits at December 31, 2022. Our loan to deposit ratio was 98.66% at March 31, 2023, as compared to 100.67% at December 31, 2022. We intend to continue to operate our business with a loan to deposit ratio within the range of these levels.

The following tables summarize our deposit composition by average deposits and average rates paid for the periods indicated:

| <i>(dollars in thousands)</i>         | For the three months ended |                   |                     |                |                   |                     |
|---------------------------------------|----------------------------|-------------------|---------------------|----------------|-------------------|---------------------|
|                                       | March 31, 2023             |                   |                     | March 31, 2022 |                   |                     |
|                                       | Average Amount             | Average Rate Paid | % of Total Deposits | Average Amount | Average Rate Paid | % of Total Deposits |
| Interest-bearing transaction accounts | \$ 379,593                 | 0.46 %            | 13.44 %             | \$ 276,690     | 0.10 %            | 11.83 %             |
| Money market and savings accounts     | 1,242,355                  | 1.95 %            | 43.98 %             | 1,011,582      | 0.16 %            | 43.26 %             |
| Time accounts                         | 300,952                    | 3.99 %            | 10.66 %             | 128,183        | 0.26 %            | 5.48 %              |
| Demand accounts                       | 901,491                    | — %               | 31.92 %             | 922,128        | — %               | 39.43 %             |
| Total deposits                        | \$ 2,824,391               | 1.35 %            | 100.00 %            | \$ 2,338,583   | 0.10 %            | 100.00 %            |

Uninsured and uncollateralized deposits totaled \$1.0 billion and \$1.2 billion at March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023, our 40 largest deposit relationships, each accounting for more than \$10.0 million, totaled \$1.6 billion, or 54.40% of our total deposits. The average age on deposit relationships of more than \$10.0 million was 10.6 years. As of December 31, 2022, our 40 largest deposit relationships, each accounting for more than \$10.0 million, totaled \$1.5 billion, or 52.15% of our total deposits. Overall, our large deposit relationships have been relatively consistent over time and have helped to continue to grow our deposit base. Our large deposit relationships are comprised of the following entity types as of the periods indicated:

| <i>(in thousands)</i> | March 31, 2023 | December 31, 2022 |
|-----------------------|----------------|-------------------|
| Municipalities        | \$ 641,795     | \$ 601,968        |
| Non-profits           | 232,065        | 195,996           |
| Businesses            | 589,138        | 527,921           |
| Brokered deposits     | 125,617        | 124,993           |
| Total                 | \$ 1,588,615   | \$ 1,450,878      |

Our largest single deposit relationship at March 31, 2023 related to a non-profit association that supports hospitals and health systems. The balances for this customer were \$220.9 million, or approximately 7.56% of total deposits, as of that date. At December 31, 2022, our largest single deposit relationship related to a government agency and had balances of \$180.0 million, or 6.47% of total deposits as of that date.

The following table sets forth the maturity of time deposits as of March 31, 2023:

| <i>(in thousands)</i>          | \$250,000 or Greater | Less than \$250,000 | Total      | Uninsured Portion |
|--------------------------------|----------------------|---------------------|------------|-------------------|
| Remaining maturity:            |                      |                     |            |                   |
| Three months or less           | \$ 134,161           | \$ 139,154          | \$ 273,315 | \$ 131,161        |
| Over three through six months  | 55,434               | 699                 | 56,133     | 52,434            |
| Over six through twelve months | 5,142                | 2,863               | 8,005      | 3,392             |
| Over twelve months             | 34,303               | 814                 | 35,117     | 32,303            |
| Total                          | \$ 229,040           | \$ 143,530          | \$ 372,570 | \$ 219,290        |

## FHLB Advances and Other Borrowings

From time to time, we utilize short-term collateralized FHLB borrowings to maintain adequate liquidity. There were borrowings of \$120.0 million outstanding as of March 31, 2023 and borrowings of \$100.0 million outstanding as of December 31, 2022.

In 2022, we issued subordinated notes of \$75.0 million. This debt was issued to investors in private placement transactions. See Note 6, Long Term Debt and Other Borrowings, in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding these subordinated notes. The proceeds of the notes qualify as Tier 2 capital for the Company under the regulatory capital rules of the federal banking agencies. The following table is a summary of our outstanding subordinated notes as of March 31, 2023:

| <i>(in thousands)</i> | <b>Issuance Date</b> | <b>Amount of Notes</b> | <b>Prepayment Right</b> | <b>Maturity Date</b> |
|-----------------------|----------------------|------------------------|-------------------------|----------------------|
| Subordinated notes    | August 2022          | \$ 75,000              | August 17, 2027         | September 1, 2032    |

Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.18% as of March 31, 2023) through maturity

## Shareholders' Equity

Shareholders' equity totaled \$260.7 million at March 31, 2023 and \$252.8 million at December 31, 2022. The increase in shareholders' equity was primarily attributable to net income recognized of \$13.2 million and \$1.5 million in other comprehensive income, partially offset by a decrease of \$4.5 million to retained earnings, net of tax effect, relating to the adoption of ASC 326 on January 1, 2023 and \$2.6 million in cash distributions paid during the three months ended March 31, 2023.

## Liquidity and Capital Resources

### *Liquidity Management*

We manage liquidity based upon factors that include the level of diversification of our funding sources, the composition of our deposit types, the availability of unused funding sources, our off-balance sheet obligations, the amount of cash and liquid securities we hold, and the availability of assets to be readily converted into cash without undue loss. As the primary federal regulator of the Bank, the FDIC evaluates our liquidity on a stand-alone basis pursuant to applicable guidance and policies.

Liquidity refers to our capacity to meet our cash obligations at a reasonable cost. Our cash obligations require us to have cash flow that is adequate to fund loan growth and maintain on-balance sheet liquidity while meeting present and future obligations of deposit withdrawals, borrowing maturities, and other contractual cash obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints in accessing sources of funds, and the ability to convert assets into cash. Changes in economic conditions or exposure to borrower credit quality, capital markets, and operational, legal, or reputational risks could also affect the Bank's liquidity risk profile and are considered in the assessment of liquidity management.

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service requirements on its subordinated debt. The Company's main source of cash flow is dividends declared and paid to it by the Bank. There are statutory and regulatory limitations that affect the ability of the Bank to pay dividends to the Company, including various legal and regulatory provisions that limit the amount of dividends the Bank can pay to the Company without regulatory approval. Under the California Financial Code, payment of a dividend from the Bank to the Company without advance regulatory approval is restricted to the lesser of the Bank's retained earnings or the amount of the Bank's net income from the previous three fiscal years less the amount of dividends paid during that period. We believe that these limitations will not impact our ability to meet our ongoing short-term cash obligations. For contingency purposes, the Company maintains a minimum level of cash to fund one year's projected operating cash flow needs plus two years' subordinated notes debt service. We continually monitor our liquidity position in order to meet all reasonably foreseeable short-term, long-term, and strategic liquidity demands. Management has established a comprehensive process for identifying, measuring, monitoring, and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management

processes. Critical elements of our liquidity risk management include effective corporate governance, consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems, including stress tests, that are commensurate with the complexity of our business activities; 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 stress 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 Bank's liquidity risk management process.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our liquidity requirements are met primarily through our deposits, FHLB advances, and the principal and interest payments we receive on loans and investment securities. Cash on hand, cash at third-party banks, investments available-for-sale, and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail and wholesale deposits, advances from the FHLB, and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from the Federal Reserve Discount Window, draws on established federal funds lines from unaffiliated commercial banks, and the issuance of debt or equity securities. We believe we have ample liquidity resources to fund future growth and meet other cash needs as necessary.

In addition, we have a shelf registration statement on file with the SEC registering \$250.0 million for any combination of equity or debt securities, depository shares, warrants, purchase contracts, purchase units, subscription rights, and units in one or more offerings. Specific information on the terms of and the securities being offered will be provided at the time of the offering. Proceeds from any future offerings are expected to be used for corporate purposes or other purposes to be disclosed at the time of the offering.

#### *Sources and Uses of Cash*

Our executive officers and board of directors review our sources and potential uses of cash in connection with our annual budgeting process. Generally speaking, our principal funding source is cash from deposits, and our principal uses of cash include funding of loans, operating expenses, income taxes, and dividend payments, as described below. As of March 31, 2023, management believes the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs.

#### Loans

Loans are a significant use of cash in daily operations, and a source of cash as customers make payments on their loans or as loans are sold to other financial institutions. Cash flows from loans are affected by the timing and amount of customer payments and prepayments, changes in interest rates, the general economic environment, competition, and the political environment.

During the three months ended March 31, 2023, we had cash outflows of \$69.5 million in loan originations and advances, net of principal collected, and \$24.0 million in loans originated for sale.

Additionally, we enter into commitments to extend credit in the ordinary course of business, such as commitments to fund new loans and undisbursed construction funds. While these commitments represent contractual cash requirements, a portion of these commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2023, total off-balance sheet commitments totaled \$335.1 million. We expect to fund these commitments to the extent utilized primarily through the repayment of existing loans, deposit growth, and liquid assets.

#### Deposits

Deposits are our primary source of funding for our business operations, and the cost of deposits has a significant impact on our net interest income and net interest margin.

Our deposits are primarily made up of money market, interest checking, time deposits, and non-interest-bearing demand deposits. Aside from commercial and business clients, a significant portion of our deposits are from municipalities and

non-profit organizations. Cash flows from deposits are impacted by the timing and amount of customer deposits, changes in market rates, and collateral availability.

During the three months ended March 31, 2023, we had significant cash inflows related to an increase in deposits of \$138.4 million, primarily as a result of an increase in the number of new relationships and fluctuations in existing accounts.

Over the next twelve months, approximately \$337.5 million of time deposits are expected to mature. These deposits may not renew due to general competition. However, based on our historical runoff experience, we expect the outflow will not be significant and can be replenished through our organic growth in deposits. We believe our emphasis on local deposits, combined with our liquid investment portfolio, provides a stable funding base.

At March 31, 2023, cash and cash equivalents represented 11.91% of total deposits.

#### Investment Securities

Our investment securities totaled \$118.7 million at March 31, 2023. Mortgage-backed securities and obligations of states and political subdivisions comprised 51.38% and 32.76% of our investment portfolio, respectively. Cash proceeds from mortgage-backed securities result from payments of principal and interest by borrowers. Cash proceeds from obligations of states and political subdivisions occur when these securities are called or mature. Assuming the current prepayment speed and interest rate environment, we expect to receive approximately \$8.2 million from our securities over the next 12 months. In future periods, we expect to maintain approximately the same level of cash flows from our securities. Depending on market yield and our liquidity, we may purchase securities as a use of cash in our interest-earning asset portfolio.

During the three months ended March 31, 2023, we had cash proceeds from sales, maturities, calls, and prepayments of securities of \$2.9 million. Additionally, at March 31, 2023, securities available-for-sale totaled \$115.1 million, of which \$93.9 million have been pledged as collateral for borrowings and other commitments.

#### FHLB Financing

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At March 31, 2023, the Bank had outstanding borrowings of \$120.0 million and a total financing availability of \$278.1 million, net of letters of credit issued of \$666.5 million.

#### Federal Reserve Discount Window and Correspondent Bank Lines of Credit

At March 31, 2023, unused and available amounts for borrowing from the Federal Reserve discount window and correspondent bank lines of credit were \$76.7 million and \$190.0 million, respectively.

#### Total Liquidity

Total liquidity (consisting of cash and cash equivalents and unused and available borrowing capacity as set forth below) was approximately \$892.7 million as of March 31, 2023.

| (in thousands)                     | March 31, 2023    |                   |                   |
|------------------------------------|-------------------|-------------------|-------------------|
|                                    | Line of Credit    | Borrowings        | Available         |
| FHLB advances                      | \$ 398,145        | \$ 120,000        | \$ 278,145        |
| Federal Reserve discount window    | 76,665            | —                 | 76,665            |
| Correspondent bank lines of credit | 190,000           | —                 | 190,000           |
| Cash and cash equivalents          | —                 | —                 | 347,939           |
| <b>Total</b>                       | <b>\$ 664,810</b> | <b>\$ 120,000</b> | <b>\$ 892,749</b> |

#### Future Contractual Obligations

Our estimated future contractual obligations as of March 31, 2023 include both current and long-term obligations. Under our operating leases, we have an operating lease liability of \$5.4 million. We also have a current obligation of \$331.8 million and a long-term obligation of \$40.8 million related to time deposits, as discussed in Note 5, Interest-Bearing



Deposits. We have net subordinated notes of \$73.6 million, all of which are long-term obligations. We also had contractual obligations on unfunded loan commitments and standby letters of credit totaling \$335.1 million.

### Dividends

The Company paid dividends to its shareholders totaling \$2.6 million during the three months ended March 31, 2023.

We expect to continue our current practice of paying quarterly cash dividends with respect to our common stock, subject to our board of directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. We believe our quarterly dividend rate per share, as approved by our board of directors, enables us to balance our multiple objectives of managing our business and returning a portion of our earnings to our shareholders. Assuming continued payment during the rest of 2023 at a rate of \$0.20 per share, our average total dividend paid each quarter would be approximately \$3.5 million based on the number of currently outstanding shares if there are no increases or decreases in the number of shares, and given that unvested RSAs share equally in dividends with outstanding common stock.

### Impact of Inflation

Our unaudited consolidated financial statements and related notes have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods or services.

### *Historical Information*

The following table summarizes our consolidated cash flow activities:

| <i>(in thousands)</i>                     | <b>Three months ended March 31,</b> |             | <b>\$ Change</b> |
|---|-------------------------------------|-------------|------------------|
|   | <b>2023</b>                         | <b>2022</b> |                  |
| Net cash provided by operating activities | \$ 694                              | \$ 3,486    | \$ (2,792)       |
| Net cash used in investing activities     | (68,559)                            | (133,513)   | 64,954           |
| Net cash provided by financing activities | 155,813                             | 209,662     | (53,849)         |

### Operating Activities

Net cash provided by operating activities decreased by \$2.8 million for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022. Cash provided by operating activities is subject to variability period-over-period as a result of timing differences, including with respect to the collection of receivables and payments of interest expense, accounts payable, and bonuses.

### Investing Activities

Net cash used in investing activities decreased by \$65.0 million for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022, primarily due to decreased loan origination growth.

### Financing Activities

Net cash provided by financing activities decreased by \$53.8 million for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022, primarily due to decreased deposit growth.

### **Capital Adequacy**

We manage our capital by tracking our level and quality of capital with consideration given to our overall financial condition, our asset quality, our level of allowance for credit losses, our geographic and industry concentrations, and other risk factors on our balance sheet, including interest rate sensitivity.

Bancorp and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements as set forth in the following tables can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on our unaudited consolidated financial statements.

Historically, as a bank holding company with less than \$3.0 billion in total consolidated assets and that met certain other criteria, we had been operating under the Small Bank Holding Company Policy Statement, which provides an exemption from the Federal Reserve's generally applicable risk-based capital ratio and leverage ratio requirements. Having passed this threshold as of September 30, 2022, we are no longer subject to this policy statement and our capital adequacy is evaluated relative to the Federal Reserve's generally applicable capital requirements. Bancorp's total consolidated assets were not in excess of \$3.0 billion as of June 30, 2022, and so it has prepared and filed financial reports with the Federal Reserve as a small bank holding company. If the Company's total consolidated assets remain in excess of \$3.0 billion as of June 30, 2023, then starting in March 2024, the Company will cease filing financial reports with the Federal Reserve as though it were a small holding company.

Under federal regulations implementing the Basel III framework, the Bank is subject to minimum risk-based and leverage capital requirements. The Bank also is subject to regulatory thresholds that must be met for an insured depository institution to be classified as "well-capitalized" under the prompt corrective action framework. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. Capital amounts for Bancorp and the Bank, and the Bank's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components of capital, risk weightings, and other factors. As of March 31, 2023, both Bancorp and the Bank were in compliance with all applicable regulatory capital requirements, and the Bank qualified as "well-capitalized" under the prompt corrective action framework.

Management reviews capital ratios on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet our anticipated future needs. For all periods presented, the Bank's ratios exceed the regulatory definition of "well-capitalized" under the regulatory framework for prompt corrective action, and Bancorp's ratios exceed the minimum ratios that would be required for it to be considered a well-capitalized bank holding company.

The capital adequacy ratios as of March 31, 2023 and December 31, 2022 for Bancorp and the Bank are presented in the following tables. As of March 31, 2023 and December 31, 2022, Bancorp's Tier 2 capital included subordinated debt, which was not included at the Bank level. Eligible amounts of subordinated debt included in Tier 2 capital will be phased out by 20% per year beginning five years before the maturity date of the notes.

| Capital Ratios for Bancorp<br><i>(dollars in thousands)</i> | Actual Ratio |         | Required for Capital Adequacy Purposes <sup>1</sup> |        | Ratio to be Well-Capitalized under Prompt Corrective Action Provisions |       |
|---|--------------|---------|---|--------|--|-------|
|   | Amount       | Ratio   | Amount  | Ratio  | Amount   | Ratio |
| <b>March 31, 2023</b>                                       |              |         |   |        |  |       |
| Total capital (to risk-weighted assets)                     | \$ 379,344   | 12.50 % | \$ 242,780  | 8.00 % | N/A  | N/A   |
| Tier 1 capital (to risk-weighted assets)                    | \$ 273,662   | 9.02 %  | \$ 182,037  | 6.00 % | N/A  | N/A   |
| Common equity tier 1 capital (to risk-weighted assets)      | \$ 273,662   | 9.02 %  | \$ 136,528  | 4.50 % | N/A  | N/A   |
| Tier 1 leverage   | \$ 273,662   | 8.53 %  | \$ 128,329  | 4.00 % | N/A  | N/A   |
| <b>December 31, 2022</b>                                    |              |         |   |        |  |       |
| Total capital (to risk-weighted assets)                     | \$ 366,113   | 12.46 % | \$ 235,065  | 8.00 % | N/A  | N/A   |
| Tier 1 capital (to risk-weighted assets)                    | \$ 263,993   | 8.99 %  | \$ 176,191  | 6.00 % | N/A  | N/A   |
| Common equity tier 1 capital (to risk-weighted assets)      | \$ 263,993   | 8.99 %  | \$ 132,144  | 4.50 % | N/A  | N/A   |
| Tier 1 leverage   | \$ 263,993   | 8.60 %  | \$ 122,788  | 4.00 % | N/A  | N/A   |

| Capital Ratios for the Bank<br><i>(dollars in thousands)</i> | Actual Ratio |         | Required for Capital Adequacy Purposes |        | Ratio to be Well-Capitalized under Prompt Corrective Action Provisions |         |
|--|--------------|---------|--|--------|--|---------|
|  | Amount       | Ratio   | Amount                                 | Ratio  | Amount   | Ratio   |
| <b>March 31, 2023</b>  |              |         |  |        |  |         |
| Total capital (to risk-weighted assets)                      | \$ 370,001   | 12.21 % | \$ 242,425                             | 8.00 % | \$ 303,031   | 10.00 % |
| Tier 1 capital (to risk-weighted assets)                     | \$ 337,959   | 11.15 % | \$ 181,861                             | 6.00 % | \$ 242,482   | 8.00 %  |
| Common equity tier 1 capital (to risk-weighted assets)       | \$ 337,959   | 11.15 % | \$ 136,396                             | 4.50 % | \$ 197,016   | 6.50 %  |
| Tier 1 leverage  | \$ 337,959   | 10.54 % | \$ 128,258                             | 4.00 % | \$ 160,322   | 5.00 %  |
| <b>December 31, 2022</b>                                     |              |         |  |        |  |         |
| Total capital (to risk-weighted assets)                      | \$ 356,301   | 12.14 % | \$ 234,795                             | 8.00 % | \$ 293,494   | 10.00 % |
| Tier 1 capital (to risk-weighted assets)                     | \$ 327,788   | 11.17 % | \$ 176,072                             | 6.00 % | \$ 234,763   | 8.00 %  |
| Common equity tier 1 capital (to risk-weighted assets)       | \$ 327,788   | 11.17 % | \$ 132,054                             | 4.50 % | \$ 190,745   | 6.50 %  |
| Tier 1 leverage  | \$ 327,788   | 10.69 % | \$ 122,652                             | 4.00 % | \$ 153,315   | 5.00 %  |

<sup>1</sup> The listed capital adequacy ratios exclude capital conservation buffers.

### Non-GAAP Financial Measures

Some of the financial measures discussed herein are non-GAAP financial measures. In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP in our consolidated statements of income, balance sheets, statements of shareholders' equity, or statements of cash flows.

Tangible shareholders' equity to tangible assets is defined as total equity less goodwill and other intangible assets, divided by total assets less goodwill and other intangible assets. The most directly comparable GAAP financial measure is total shareholders' equity to total assets. We had no goodwill or other intangible assets at the end of any period indicated. As a result, tangible shareholders' equity to tangible assets is the same as total shareholders' equity to total assets at the end of each of the periods indicated.

We believe that these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations, and cash flows computed in accordance with GAAP. However, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other banking companies use. Other banking companies may use names similar to those we use for the non-GAAP financial measures we disclose, but may calculate them differently. You should understand how we and other companies each calculate our non-GAAP financial measures when making comparisons.

### Recent Legislative and Regulatory Developments

#### *Potential Regulatory Reform in Response to Recent Bank Failures*

The recent failures of Silicon Valley Bank (Santa Clara, California), Signature Bank (New York, New York), and First Republic Bank (San Francisco, California) in March and April of this year may lead to regulatory changes and initiatives that could impact the Company. For example, the FDIC has stated that it plans to impose a special deposit insurance assessment on banks in order to recover losses that the FDIC's Deposit Insurance Fund incurred to support uninsured depositors of these institutions. In addition, President Biden has encouraged the federal banking agencies to adopt various reforms, including the completion of an incentive compensation rule for bank executives pursuant to Section 956 of the Dodd-Frank Act, in response to these failures. On April 28, 2023, the Federal Reserve and the FDIC issued reports on the potential causes of failures of Silicon Valley Bank and Signature Bank, respectively. Among the changes discussed, the Federal Reserve and the FDIC highlighted potential changes needed to supervisory approaches for banks of all sizes as well

as to regulatory requirements. Currently, it is unclear what actions federal regulatory agencies will take as a result of these failures.

#### *Bank Term Funding Program*

The Federal Reserve created the Bank Term Funding Program (the “BTFP”) in response to recent concerns over liquidity in the banking sector. This program provides funding to eligible depository institutions to help ensure that banks can meet the needs of all depositors. The BTFP offers one-year loans to banks pledging any collateral eligible for purchase by the Federal Reserve Banks in open market operations, such as U.S. Treasury securities, U.S. agency securities, and U.S. agency mortgage-backed securities. At March 31, 2023, the Company had not participated in the BTFP.

#### *Small Business Lending Data Collection Rule*

On March 30, 2023, the Consumer Financial Protection Bureau finalized a rule under Section 1071 of the Dodd-Frank Act requiring lenders to collect and report data regarding small business lending activity. The Company is evaluating the impact of the new rule.

## Glossary of Acronyms, Abbreviations, and Terms

The terms identified below are used in various sections of this Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 and the unaudited Consolidated Financial Statements and Notes to the Financial Statements in Item 1 of this Form 10-Q.

|                                 |   |                 |   |
|---------------------------------|---|-----------------|---|
| 2022 Annual Report on Form 10-K | Company’s Annual Report on Form 10-K for the year ended December 31, 2022         | Federal Reserve | Board of Governors of the Federal Reserve System                      |
| ACL                             | Allowance for Credit Losses   | FRB             | Federal Reserve Bank of San Francisco                                 |
| ASC                             | Accounting Standards Codification   | GAAP            | Generally Accepted Accounting Principles in the U.S.                  |
| ASU                             | Accounting Standards Update   | GNMA            | Government National Mortgage Association                              |
| AFS                             | Available-for-Sale  | GSE             | Government sponsored entity   |
| Bancorp                         | Five Star Bancorp and its subsidiary  | HTM             | Held-to-Maturity  |
| Bank                            | Five Star Bank  | ICS             | Insured Cash Sweep®   |
| Basel III                       | A capital framework and rules for U.S. banking organizations                      | IPO             | Initial Public Offering   |
| BOLI                            | Bank-Owned Life Insurance   | LM              | Modifications to loans to borrowers experiencing financial difficulty |
| CDARS                           | Certificate of Deposit Account Registry Service®                                  | NI              | Net income  |
| CECL                            | Current expected credit loss model for recognition of credit losses under ASC 326 | NIM             | Net Interest Margin   |
| C&I                             | Commercial & Industrial   | OCI             | Other comprehensive income  |
| CRE                             | Commercial Real Estate  | ROAA            | Return on Average Assets, annualized                                  |
| EPS                             | Earnings per Share  | ROAE            | Return on Average Equity, annualized                                  |
| FASB                            | Financial Accounting Standards Board  | ROUA            | Right-of-Use Asset  |
| FDIC                            | Federal Deposit Insurance Corporation   | SBA             | U.S. Small Business Administration                                    |
| FHLB                            | Federal Home Loan Bank of San Francisco   | SEC             | Securities and Exchange Commission                                    |
| FHLMC                           | Federal Home Loan Mortgage Corporation  | SOFR            | Secured Overnight Financing Rate                                      |
| FNMA                            | Federal National Mortgage Association   | TDR             | Troubled Debt Restructuring   |

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable for a smaller reporting company.

### **ITEM 4. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of March 31, 2023 of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

On January 1, 2023, the Company adopted ASC 326. As a result, the Company made changes to and incorporated new policies, processes, and controls over the estimation of the allowance for credit losses. There were changes implemented to account for the additional complexity of the credit loss models, review of economic forecasts, and other assumptions used in the estimation process. These changes were not undertaken in response to any identified deficiency in the Company's internal control over financial reporting. There have been no other changes in the Company's internal control.

## **PART II OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

From time to time, we are a party to various litigation matters incidental to the conduct of our business. We do not believe that any currently pending legal proceedings will have a material adverse effect on our business, financial condition, or results of operations.

### **ITEM 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed under Item 1A of the Company's 2022 Annual Report on Form 10-K, previously filed with the SEC, except for the addition of the following risk factor:

*A failure, or the perceived risk of a failure, to raise the statutory debt limit of the United States could have an adverse effect on our business, financial condition, and results of operations.*

The inability of U.S. lawmakers to pass legislation to raise the U.S. government's debt limit of \$31.4 trillion has increased the possibility of a default by the U.S. government on its debt obligations, which could have an adverse impact on financial markets, interest rates, and economic conditions in the United States and worldwide. The U.S. government reached its debt limit of \$31.4 trillion in January 2023. Since then, the U.S. Department of Treasury has implemented extraordinary measures to prevent default.

It is unclear if Congress and the President will reach an agreement to increase the U.S. government's debt limit in a timely manner. The political stalemate over legislation to fund U.S. government operations and raise the U.S. government's debt limit may increase the possibility of a default by the U.S. government on its debt obligations and related credit-rating downgrades. This creates uncertainty in the U.S. financial markets and domestic political conditions, which could have an adverse impact on our business, financial condition, and results of operations. If the United States is unable to increase the U.S. government's debt limit in a timely manner, the U.S. government could shut down for a period of time and the United States could default or delay on payment of its obligations or both, which could have an adverse impact on financial markets and economic conditions in the United States and worldwide and an adverse effect on our business, financial condition, and results of operations.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### (a) Unregistered Sales of Equity Securities

None.

#### (b) Use of Proceeds

Not applicable.

#### (c) Issuer Purchases of Equity Securities

None.

### **ITEM 3. Defaults Upon Senior Securities**

None.

### **ITEM 4. Mine Safety Disclosures**

Not applicable.

### **ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

The following exhibits are filed as part of this report or hereby incorporated by references to filings previously made with the SEC.

| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>  | <b>Incorporated by Reference</b> |                 |                |                    | <b>Herewith</b> |
|---------------------------|---|----------------------------------|-----------------|----------------|--------------------|-----------------|
|                           |   | <b>Form</b>                      | <b>File No.</b> | <b>Exhibit</b> | <b>Filing Date</b> |                 |
| 31.1                      | <a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a> |                                  |                 |                |                    | Filed           |
| 31.2                      | <a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a> |                                  |                 |                |                    | Filed           |
| 32.1                      | <a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |                                  |                 |                |                    | Filed           |
| 32.2                      | <a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002</a>            |                                  |                 |                |                    | Filed           |
| 101                       | Inline XBRL Interactive Data  |                                  |                 |                |                    | Filed           |
| 104                       | Cover Page Interactive Data File (embedded within the Inline XBRL document in Exhibit 101)  |                                  |                 |                |                    | Filed           |



**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.

Five Star Bancorp  
(registrant)

May 10, 2023

\_\_\_\_\_  
Date

*/s/ James E. Beckwith*

\_\_\_\_\_  
James E. Beckwith  
President &  
Chief Executive Officer  
(Principal Executive Officer)

May 10, 2023

\_\_\_\_\_  
Date

*/s/ Heather C. Luck*

\_\_\_\_\_  
Heather C. Luck  
Senior Vice President &  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James E. Beckwith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Five Star Bancorp (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

May 10, 2023

Date

*/s/ James E. Beckwith*

James E. Beckwith

President & Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Heather C. Luck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Five Star Bancorp (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

May 10, 2023

Date

*/s/ Heather C. Luck*

Heather C. Luck

Senior Vice President & Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Five Star Bancorp (the “Company”) for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James E. Beckwith, President & Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 10, 2023

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Date

*/s/ James E. Beckwith*

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James E. Beckwith

President & Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Five Star Bancorp (the “Company”) for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Heather C. Luck, Senior Vice President & Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

May 10, 2023

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Date

*/s/ Heather C. Luck*

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Heather C. Luck

Senior Vice President & Chief Financial Officer