**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

OR

o 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 | 75-3100966 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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

Not Applicable
(Former name, former address and formal fiscal year, if changed since last report)

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 x No o

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 x No o

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 | o | Accelerated filer | o |
| Non-accelerated Filer | x | Smaller reporting company | x |
| Emerging growth company | x | | |

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. o

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

As of May 6, 2022, there were 17,245,449 shares of the registrant's common stock, no par value, outstanding.

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**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 phases of similar meaning. 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:

- uncertain market conditions and economic trends nationally, regionally, and particularly in Northern California and California, including as a result of the coronavirus, and variants thereof;
- 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;
- the occurrence or impact of climate change or natural or man-made disasters or calamities, such as wildfires, droughts, and earthquakes;
- risks related to the impact of the COVID-19 pandemic on our business and operations;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- 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 ability to attract and retain executive officers and key employees and their customer and community relationships;
- the risks associated with our loan portfolios, and specifically with our commercial real estate loans;
- 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 maintain adequate liquidity and to maintain capital necessary to fund our growth strategy and operations and to satisfy minimum regulatory capital levels;
- the effects of increased competition from a wide variety of local, regional, national, and other providers of financial and investment services;
- risks associated with unauthorized access, cyber-crime, and other threats to data security;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions, including supervisory actions by federal and state banking agencies;
- 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;
- governmental monetary and fiscal policies, including the policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");

- changes in the U.S. economy, including an economic slowdown, inflation, deflation, housing prices, employment levels, rate of growth, and general business conditions;

- our ability to implement, maintain, and improve effective internal controls; and

- other factors that are discussed in the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors.”

The foregoing factors should not be considered exhaustive and should be read together with other cautionary statements that are included in this report, including those discussed in the section entitled “Risk Factors.” Additional factors that could cause results or performance to materially differ from those expressed in our forward-looking statements are detailed in the section entitled “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021, and other filings we may make with the Securities and Exchange Commission ("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.

## PART I FINANCIAL INFORMATION

### ITEM 1. Financial Statements

**FIVE STAR BANCORP AND SUBSIDIARY**
**CONSOLIDATED BALANCE SHEETS**
**As of March 31, 2022 and December 31, 2021**
(Unaudited)
(In thousands, except share data)

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from financial institutions | $ 66,747 | $ 136,074 |
| Interest-bearing deposits in banks | 438,217 | 289,255 |
| Cash and cash equivalents | 504,964 | 425,329 |
| Time deposits in banks | 14,464 | 14,464 |
| Securities available-for-sale, at fair value | 134,813 | 148,807 |
| Securities held-to-maturity, at amortized cost (fair value of $4,459 and $5,197 at March 31, 2022 and December 31, 2021, respectively) | 4,486 | 4,946 |
| Loans held for sale | 10,386 | 10,671 |
| Loans held for investment | 2,080,158 | 1,934,460 |
| Allowance for loan losses | (23,904) | (23,243) |
| Loans held for investment, net of allowance for loan losses | 2,056,254 | 1,911,217 |
| Federal Home Loan Bank of San Francisco (“FHLB”) stock | 6,667 | 6,723 |
| Operating leases, right-of-use asset ("ROUA") | 4,718 | — |
| Premises and equipment, net | 1,836 | 1,773 |
| Bank-owned life insurance ("BOLI"), net | 14,343 | 11,203 |
| Interest receivable and other assets | 25,318 | 21,628 |
| | $ 2,778,249 | $ 2,556,761 |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** | | |
| Deposits | | |
| Non-interest-bearing | $ 941,285 | $ 902,118 |
| Interest-bearing | 1,561,807 | 1,383,772 |
| Total deposits | 2,503,092 | 2,285,890 |
| Subordinated notes, net | 28,403 | 28,386 |
| Operating lease liability | 4,987 | — |
| Interest payable and other liabilities | 10,706 | 7,439 |
| Total liabilities | 2,547,188 | 2,321,715 |
| Commitments and contingencies (Note 11) | | |
| Shareholders’ equity | | |
| Preferred stock, no par value; 10,000,000 shares authorized; zero issued and outstanding at March 31, 2022 and December 31, 2021 | — | — |
| Common stock, no par value; 100,000,000 shares authorized; 17,246,199 shares issued and outstanding at March 31, 2022; 17,224,848 shares issued and outstanding at December 31, 2021 | 218,721 | 218,444 |
| Retained earnings | 19,558 | 17,168 |
| Accumulated other comprehensive loss, net | (7,218) | (566) |
| Total shareholders’ equity | 231,061 | 235,046 |
| | $ 2,778,249 | $ 2,556,761 |

See accompanying notes to unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF INCOME**
(Unaudited)
(In thousands, except per share data)

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Interest and fee income | | |
| Loans, including fees | $ 22,091 | $ 18,613 |
| Taxable securities | 390 | 259 |
| Nontaxable securities | 177 | 214 |
| Interest-bearing deposits in other banks | 192 | 104 |
| | 22,850 | 19,190 |
| Interest expense | | |
| Deposits | 545 | 699 |
| Subordinated notes | 443 | 443 |
| | 988 | 1,142 |
| Net interest income | 21,862 | 18,048 |
| Provision for loan losses | 950 | 200 |
| Net interest income after provision for loan losses | 20,912 | 17,848 |
| Non-interest income | | |
| Service charges on deposit accounts | 108 | 90 |
| Net gain on sale of securities available-for-sale | 5 | 182 |
| Gain on sale of loans | 918 | 931 |
| Loan-related fees | 617 | 260 |
| FHLB stock dividends | 102 | 78 |
| Earnings on BOLI | 90 | 52 |
| Other | 345 | 23 |
| | 2,185 | 1,616 |
| Non-interest expense | | |
| Salaries and employee benefits | 5,675 | 4,697 |
| Occupancy and equipment | 520 | 451 |
| Data processing and software | 716 | 629 |
| Federal Deposit Insurance Corporation ("FDIC") insurance | 165 | 280 |
| Professional services | 554 | 1,532 |
| Advertising and promotional | 344 | 170 |
| Loan-related expenses | 278 | 229 |
| Other operating expenses | 1,323 | 816 |
| | 9,575 | 8,804 |
| Income before provision for income taxes | 13,522 | 10,660 |
| Provision for income taxes | 3,660 | 382 |
| Net income | $ 9,862 | $ 10,278 |
| Basic earnings per share | $ 0.58 | $ 0.93 |
| Diluted earnings per share | $ 0.58 | $ 0.93 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Net income | $ 9,862 | $ 10,278 |
| | | |
| Net unrealized holding loss on securities available-for-sale during the period | (9,438) | (1,614) |
| Reclassification adjustment for net realized gains included in net income | (5) | (185) |
| | | |
| Income tax benefit related to other comprehensive loss | (2,791) | (64) |
| | | |
| Other comprehensive loss | (6,652) | (1,735) |
| | | |
| Total comprehensive income | $ 3,210 | $ 8,543 |

See accompanying notes to unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**Three months ended March 31, 2022 and 2021**
(Unaudited)
(In thousands, except share and per share data)

| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Taxes | Total |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| Three months ended March 31, 2021 | | | | | |
| Balance at December 31, 2020 | 11,000,273 | $ 110,082 | $ 22,348 | $ 1,345 | $ 133,775 |
| Net income | — | — | 10,278 | — | 10,278 |
| Other comprehensive loss | — | — | — | (1,735) | (1,735) |
| Stock compensation expense | — | 62 | — | — | 62 |
| Stock issued under stock award plans | 9,454 | — | — | — | — |
| Stock forfeitures | (2,722) | — | — | — | — |
| Cash dividends paid ($1.00 per share) | — | — | (11,003) | — | (11,003) |
| Balance at March 31, 2021 | 11,007,005 | $ 110,144 | $ 21,623 | $ (390) | $ 131,377 |
| | | | | | |
| Three months ended March 31, 2022 | | | | | |
| Balance at December 31, 2021 | 17,224,848 | $ 218,444 | $ 17,168 | $ (566) | $ 235,046 |
| Net income | — | — | 9,862 | — | 9,862 |
| Other comprehensive loss | — | — | — | (6,652) | (6,652) |
| Stock compensation expense | — | 169 | — | — | 169 |
| Director stock compensation expense | — | 108 | — | — | 108 |
| Stock issued under stock award plans | 22,201 | — | — | — | — |
| Stock forfeitures | (850) | — | — | — | — |
| Cumulative effect of adoption of ASC 842 on retained earnings | — | — | 68 | — | 68 |
| Cash dividends paid ($0.60 per share) | — | — | (7,540) | — | (7,540) |
| Balance at March 31, 2022 | 17,246,199 | $ 218,721 | $ 19,558 | $ (7,218) | $ 231,061 |

See accompanying notes to unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Three months ended March 31, 2022 and 2021**
(Unaudited)
(In thousands, except share and per share data)

| | Three months ended March 31, 2022 | Three months ended March 31, 2021 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 9,862 | $ 10,278 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 950 | 200 |
| Loans originated for sale | (21,173) | (13,021) |
| Gain on sale of loans | (918) | (931) |
| Proceeds from sale of loans | 11,705 | 10,892 |
| Net gain on sale of securities available-for-sale | (5) | (182) |
| Earnings on BOLI | (90) | (52) |
| Stock compensation expense | 169 | 62 |
| Director stock compensation expense | 108 | — |
| Change in deferred loan fees | (365) | 2,087 |
| Amortization and accretion of security premiums and discounts | 358 | 361 |
| Amortization of subordinated notes issuance costs | 17 | 16 |
| Depreciation and amortization | 161 | 131 |
| Decrease in operating lease liability | (234) | — |
| Amortization of operating lease ROUA | 250 | — |
| Deferred taxes | (2,777) | — |
| Net changes in: | | |
| Interest receivable and other assets | 1,880 | (1,485) |
| Interest payable and other liabilities | 3,588 | 245 |
| Net cash provided by operating activities | 3,486 | 8,601 |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of securities available-for-sale | 1,623 | 11,456 |
| Maturities, prepayments, and calls of securities available-for-sale | 4,731 | 4,520 |
| Purchases of securities available-for-sale | (1,642) | (28,761) |
| Increase in time deposits in banks | — | (1,991) |
| Loan originations, net of repayments | (134,951) | (37,719) |
| Purchase of premises and equipment | (224) | (113) |
| Purchase of BOLI | (3,050) | — |
| Net cash used in investing activities | (133,513) | (52,608) |
| **Cash flows from financing activities:** | | |
| Net change in deposits | 217,202 | 199,109 |
| Cash dividends paid | (7,540) | (11,003) |
| Net cash provided by financing activities | 209,662 | 188,106 |
| Net change in cash and cash equivalents | 79,635 | 144,099 |
| Cash and cash equivalents at beginning of period | 425,329 | 290,493 |
| Cash and cash equivalents at end of period | $ 504,964 | $ 434,592 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $ 932 | $ 1,170 |
| **Supplemental disclosure of noncash investing and financing activities:** | | |
| Transfer from loans held for investment to loans held for sale | $ 10,671 | $ 4,820 |
| Unrealized (loss) gain on securities | $ (9,438) | $ 1,797 |
| Operating lease liabilities recorded in conjunction with adoption of ASC 842 | $ 5,221 | $ — |
| ROUA recorded in conjunction with adoption of ASC 842 | $ 4,974 | $ — |
| Cumulative effect of adoption of ASC 842 on retained earnings | $ 68 | $ — |

See accompanying notes to unaudited consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Unaudited)

**Note 1: Basis of Presentation**

*Nature of Operations and Principles of Consolidation*

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 two loan production offices in Santa Rosa and Sacramento.

The Company terminated its status as a Subchapter S corporation as of May 5, 2021, in connection with the Company's Initial Public Offering ("IPO") and became a taxable C Corporation. Prior to that date, as an S Corporation, the Company had no U.S. federal income tax expense.

On April 9, 2021, the Company publicly filed a Registration Statement on Form S-1 with the SEC in connection with its IPO (the "Registration Statement"), which was subsequently amended on April 26, 2021 and May 3, 2021. The Registration Statement was declared effective by the SEC on May 4, 2021. In connection with the IPO, the Company issued 6,054,750 shares of common stock, no par value, which included 789,750 shares sold pursuant to the underwriters' exercise of their option to purchase additional shares. The securities were sold to the public at a price of $20.00 per share and began trading on the Nasdaq Global Select Market on May 5, 2021. On May 7, 2021, the closing date of the IPO, the Company received total net proceeds of $111.2 million. The net proceeds less other related expenses, including audit fees, legal fees, listing fees, and other expenses, totaled $109.1 million.

*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") Accounting Standards Codification ("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, 2021, and the notes thereto, as filed in the Company's Annual Report on Form 10-K, which was filed with the SEC on February 25, 2022.

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, 2022 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, 2022.

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.

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

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.

*Use of Estimates*

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions affect the amounts reported in the unaudited consolidated financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses is the most significant accounting estimate reflected in the Company's consolidated financial statements.

*Earnings Per Share ("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.

| | Three months ended | |
|---|---|---|
| (in thousands, except per share data) | March 31, 2022 | March 31, 2021 |
| Net income | $ 9,862 | $ 10,278 |
| Weighted average basic common shares outstanding | 17,102,508 | 10,998,041 |
| Add: Dilutive effects of assumed vesting of restricted stock | 62,011 | — |
| Weighted average diluted common shares outstanding | 17,164,519 | 10,998,041 |
| Income per common share: | | |
| Basic EPS | $ 0.58 | $ 0.93 |
| Diluted EPS | $ 0.58 | $ 0.93 |

During the three months ended March 31, 2022 and 2021, there were no outstanding stock options. Anti-dilutive shares, which are excluded from the dilutive EPS calculation, were deemed to be immaterial.

For the three months ended March 31, 2021, pro forma EPS is calculated by applying a C Corporation effective tax rate of 29.56% to net income before provision for income taxes and using the determined pro forma net income balance to calculate EPS. For the three months ended March 31, 2022, pro forma EPS is actual EPS given that the Company was a C Corporation for the entire three-month period. The following reconciliation table provides a detailed calculation of pro forma EPS:

| | Three months ended | |
|---|---|---|
| (in thousands, except per share data) | March 31, 2022 | March 31, 2021 |
| Net income before provision for income taxes - GAAP | $ 13,522 | $ 10,660 |
| Less: Actual/pro forma provision for income taxes | 3,660 | 3,151 |
| Actual/pro forma net income | $ 9,862 | $ 7,509 |
| | | |
| Weighted average basic common shares outstanding | 17,102,508 | 10,998,041 |
| Add: Dilutive effects of assumed vesting of restricted stock | 62,011 | — |
| Weighted average diluted common shares outstanding | 17,164,519 | 10,998,041 |
| | | |
| Income per common share: | | |
| Basic EPS (actual/pro forma) | $ 0.58 | $ 0.68 |
| Diluted EPS (actual/pro forma) | $ 0.58 | $ 0.68 |

*Reclassifications*

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.

**Note 2: Recently Issued Accounting Standards**

The following reflect recent accounting standards that are pending adoption by the Company. As discussed in Note 1, Basis of Presentation, 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 reflect effective dates for the Company as an emerging growth company with the extended transition period.

*Accounting Standards Adopted*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02, which, among other things, requires lessees to recognize most leases on the balance sheet, thus increasing reported assets and liabilities. Lessor accounting remains substantially similar to historical GAAP. The FASB has issued incremental guidance to Topic 842 standard through ASU No. 2018-10, 2018-11, and 2021-05. The Company has elected to use the transition relief approach as provided in ASU 2018-11, which permits the Company to use January 1, 2022 as both the application date and the adoption date, rather than the modified retrospective approach. The Company also elected certain relief options offered within the new standard, which include the package of practical expedients, the option not to recognize an ROUA and lease liability that arise from short-term leases (i.e., leases with terms of 12 months or less), and the option of hindsight when determining lease term. Substantially all of the Company's lease agreements are considered operating leases and were not previously recognized on the Company's balance sheets. As of January 1, 2022, the Company recorded an ROUA and corresponding lease liability for all applicable operating leases. While the guidance increased the Company's gross assets and liabilities, the adoption of ASU 2016-02 did not have a material impact on the consolidated statements of income or the consolidated statements of cash flows. See Note 11, Commitments and Contingencies, for more information.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The primary objective of the amendments in this update is to simplify the application of hedge accounting. More specifically, the amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. Furthermore, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additionally, amendments in this update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. Hedge ineffectiveness is no longer separately measured and reported. The amendments in this update were effective for the Company beginning on January 1, 2022. The impact of adopting this ASU was immaterial to the Company's consolidated financial statements.

*Accounting Standards Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard will replace the "incurred loss" model with a "current expected credit loss" ("CECL") model. The CECL model will apply to estimated credit losses on loans receivable, held-to-maturity debt securities, unfunded loan commitments, and certain other financial assets measured at amortized cost. The CECL model is based on lifetime expected losses, rather than incurred losses, and requires the recognition of credit loss expense in the consolidated statement of income and a related allowance for credit losses on the consolidated statement of condition at the time of origination or purchase of a loan receivable or held-to-maturity debt security. Likewise, subsequent changes in this estimate are recorded through credit loss expense and related allowance. The CECL model requires the use of not only relevant historical experience and current conditions, but reasonable and supportable forecasts of future events and circumstances, incorporating a broad range of information in developing credit loss estimates, which could result in significant changes to both the timing and amount of credit loss expense and allowance. Under ASU 2016-13, available-for-sale debt securities are evaluated for impairment if fair value is less than amortized cost. Estimated credit losses are 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 ASU also expands the disclosure requirements regarding assumptions, models, and methods for estimating the allowance for loan losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. In March 2022, the FASB issued ASU No. 2022-02, which eliminates the recognition and measurement guidance on troubled debt restructurings and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulties. ASU 2016-13, and subsequently, ASU 2022-02, are effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Entities will apply 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. While the Company believes the change from an incurred loss model to a CECL model has the potential to increase the allowance for loan losses at the adoption date, the Company cannot reasonably quantify the impact of the adoption of the amendments to its financial condition or results of operations at this time due to the complexity of and extensive changes resulting from these amendments. The Company is working with a third-party vendor to identify data gaps and determine the appropriate methodologies and resources to utilize in preparation for its transition to the new accounting standard, including but not limited to the use of certain tools to forecast future economic conditions that affect the cash flows of loans over their lifetime.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference the London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. Additionally, in January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848),* which refines the scope of ASC 848 and clarifies its guidance, permitting entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, computing variation margin settlements, and calculating price alignment interest in connection with reference rate reform activities under way in global financial markets. The amendments in these ASUs may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in these updates at an interim period subsequent to March 12, 2020, with adoption methods varying based on transaction type. The Company has not elected to apply these amendments; however, the Company is assessing the applicability of the ASUs and continues to monitor guidance for reference rate reform from FASB and its impact on the Company's consolidated financial statements.

**Note 3: 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.

| (in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Measurement Categories: Changes in Fair Value Recorded In[1] |
|---|---|---|---|---|---|
| **March 31, 2022** | | | | | |
| Assets: | | | | | |
| Securities available-for-sale: | | | | | |
| U.S. government agencies, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds | $ 134,813 | $ — | $ 134,813 | $ — | OCI |
| Derivatives – interest rate swap | 58 | — | 58 | — | NI |
| Liabilities: | | | | | |
| Derivatives – interest rate swap | 58 | — | 58 | — | NI |
| **December 31, 2021** | | | | | |
| Assets: | | | | | |
| Securities available-for-sale: | | | | | |
| U.S. government agencies, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds | $ 148,807 | $ — | $ 148,807 | $ — | OCI |
| Derivatives – interest rate swap | 92 | — | 92 | — | NI |
| Liabilities: | | | | | |
| Derivatives – interest rate swap | 92 | — | 92 | — | NI |

1 Other comprehensive income ("OCI") or net income ("NI").

Available-for-sale securities are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1) 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). Level 2 securities include U.S. agencies' or government-sponsored enterprises' ("GSEs") debt securities, mortgage-backed securities, government agency issued bonds, privately issued collateralized mortgage obligations, and corporate bonds. As of March 31, 2022 and December 31, 2021, there were no Level 1 or Level 3 available-for-sale securities.

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 impaired loans and other real estate owned ("OREO"). As of March 31, 2022 and December 31, 2021, the Company did not carry any assets measured at fair value on a non-recurring basis.

*Disclosures about Fair Value of Financial Instruments*

The table below is a summary of fair value estimates for financial instruments as of March 31, 2022 and December 31, 2021. 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.

| | March 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Carrying Amounts | Fair Value | Fair Value Hierarchy | Carrying Amounts | Fair Value | Fair Value Hierarchy |
| Financial assets: | | | | | | |
| Cash and cash equivalents | $ 504,964 | $ 504,964 | Level 1 | $ 425,329 | $ 425,329 | Level 1 |
| Time deposits in banks | 14,464 | 14,464 | Level 1 | 14,464 | 14,464 | Level 1 |
| Securities available-for-sale | 134,813 | 134,813 | Level 2 | 148,807 | 148,807 | Level 2 |
| Securities held-to-maturity | 4,486 | 4,459 | Level 3 | 4,946 | 5,197 | Level 3 |
| Loans held for sale | 10,386 | 11,063 | Level 2 | 10,671 | 11,217 | Level 2 |
| Loans held for investment, net of allowance for loan losses | 2,056,254 | 1,993,626 | Level 3 | 1,911,217 | 1,893,431 | Level 3 |
| FHLB stock and other investments | 12,383 | N/A | N/A | 12,464 | N/A | N/A |
| Interest receivable | 5,547 | 5,547 | Level 2 | 5,332 | 5,332 | Level 2 |
| Interest rate swap | 58 | 58 | Level 2 | 92 | 92 | Level 2 |
| Financial liabilities: | | | | | | |
| Deposits | 2,503,092 | 2,349,536 | Level 2 | 2,285,890 | 2,210,555 | Level 2 |
| Interest payable | 79 | 79 | Level 2 | 23 | 23 | Level 2 |
| Interest rate swap | 58 | 58 | Level 2 | 92 | 92 | Level 2 |
| Subordinated notes | 28,403 | 28,403 | Level 3 | 28,386 | 28,386 | Level 3 |

The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at March 31, 2022 and December 31, 2021:

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: 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 loan 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 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 LIBOR. 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 4: 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 Small Business Administration (the "SBA"), and securities issued by U.S. GSEs, such as the Federal National Mortgage Association (the "FNMA"), the Federal Home Loan Mortgage Corporation (the "FHLMC"), and the FHLB. The Company also invests in residential and commercial mortgage-backed securities, collateralized mortgage obligations issued or guaranteed by the GSEs, 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, 2022 and December 31, 2021 is presented below.

| | | Gross Unrealized | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gains | (Losses) | Fair Value |
| **March 31, 2022** | | | | |
| Obligations of states and political subdivisions | $ 4,486 | $ — | $ (27) | $ 4,459 |
| Total held-to-maturity | $ 4,486 | $ — | $ (27) | $ 4,459 |
| **December 31, 2021** | | | | |
| Obligations of states and political subdivisions | $ 4,946 | $ 251 | $ — | $ 5,197 |
| Total held-to-maturity | $ 4,946 | $ 251 | $ — | $ 5,197 |

For securities issued by states and political subdivisions, 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.

A summary of the amortized cost and fair value related to securities available-for-sale as of March 31, 2022 and December 31, 2021 is presented below.

| | | Gross Unrealized | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gains | (Losses) | Fair Value |
| **March 31, 2022** | | | | |
| U.S. government agencies | $ 18,241 | $ 95 | $ (257) | $ 18,079 |
| Mortgage-backed securities | 79,694 | 8 | (6,210) | 73,492 |
| Obligations of states and political subdivisions | 44,621 | 23 | (3,713) | 40,931 |
| Collateralized mortgage obligations | 504 | — | (21) | 483 |
| Corporate bonds | 2,000 | — | (172) | 1,828 |
| Total available-for-sale | $ 145,060 | $ 126 | $ (10,373) | $ 134,813 |
| **December 31, 2021** | | | | |
| U.S. government agencies | $ 19,824 | $ 60 | $ (202) | $ 19,682 |
| Mortgage-backed securities | 82,517 | 94 | (1,098) | 81,513 |
| Obligations of states and political subdivisions | 44,732 | 525 | (120) | 45,137 |
| Collateralized mortgage obligations | 537 | 3 | — | 540 |
| Corporate bonds | 2,000 | — | (65) | 1,935 |
| Total available-for-sale | $ 149,610 | $ 682 | $ (1,485) | $ 148,807 |

The amortized cost and fair value of investment debt securities by contractual maturity at March 31, 2022 and December 31, 2021 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.

| | March 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Held-to-Maturity | | Available-for-Sale | | Held-to-Maturity | | Available-for-Sale | |
| (in thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within one year | $ 456 | $ 454 | $ — | $ — | $ 491 | $ 516 | $ — | $ — |
| After one but within five years | 1,115 | 1,108 | 505 | 514 | 951 | 999 | 507 | 522 |
| After five years through ten years | 1,590 | 1,580 | 3,684 | 3,458 | 3,504 | 3,682 | 3,697 | 3,748 |
| After ten years | 1,325 | 1,317 | 40,432 | 36,959 | — | — | 40,528 | 40,867 |
| | | | | | | | | |
| Investment securities not due at a single maturity date: | | | | | | | | |
| U.S. government agencies | — | — | 18,241 | 18,079 | — | — | 19,824 | 19,682 |
| Mortgage-backed securities | — | — | 79,694 | 73,492 | — | — | 82,517 | 81,513 |
| Collateralized mortgage obligations | — | — | 504 | 483 | — | — | 537 | 540 |
| Corporate bonds | — | — | 2,000 | 1,828 | — | — | 2,000 | 1,935 |
| Total | $ 4,486 | $ 4,459 | $ 145,060 | $ 134,813 | $ 4,946 | $ 5,197 | $ 149,610 | $ 148,807 |

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

| (in thousands) | For the three months ended March 31, 2022 | For the three months ended March 31, 2021 |
|---|---|---|
| Available-for-sale: | | |
| Sales proceeds | $ 1,623 | $ 11,456 |
| Gross realized gains | 5 | 182 |

Pledged investment securities are shown in the following table:

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Pledged to the State of California: | | |
| Secure deposits of public funds and borrowings | $ 57,423 | $ 63,363 |
| Total pledged investment securities | $ 57,423 | $ 63,363 |

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, 2022 and December 31, 2021:

| (in thousands) | < 12 continuous months | | ≥ 12 continuous months | | Total securities in a loss position | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| **March 31, 2022** | | | | | | |
| U.S. government agencies | $ 2,275 | $ (77) | $ 12,371 | $ (180) | $ 14,646 | $ (257) |
| Mortgage-backed securities | 62,090 | (5,122) | 10,969 | (1,088) | 73,059 | (6,210) |
| Obligations of states and political subdivisions | 37,803 | (3,540) | 1,791 | (173) | 39,594 | (3,713) |
| Collateralized mortgaged obligations | 483 | (21) | — | — | 483 | (21) |
| Corporate bonds | 1,828 | (172) | — | — | 1,828 | (172) |
| Total temporarily impaired securities | $ 104,479 | $ (8,932) | $ 25,131 | $ (1,441) | $ 129,610 | $ (10,373) |
| **December 31, 2021** | | | | | | |
| U.S. government agencies | $ — | $ — | $ 13,399 | $ (202) | $ 13,399 | $ (202) |
| Mortgage-backed securities | 73,972 | (1,046) | 1,400 | (52) | 75,372 | (1,098) |
| Obligations of states and political subdivisions | 14,014 | (112) | 407 | (8) | 14,421 | (120) |
| Corporate bonds | 1,935 | (65) | — | — | 1,935 | (65) |
| Total temporarily impaired securities | $ 89,921 | $ (1,223) | $ 15,206 | $ (262) | $ 105,127 | $ (1,485) |

There were 150 and 91 available-for-sale securities in unrealized loss positions at March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022, the investment portfolio included 24 investment securities that had been in a continuous loss position for twelve months or more and 126 investment securities that had been in a loss position for less than twelve months.

The Company periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary and has determined that no investment security is other than temporarily impaired. The unrealized losses are due primarily to interest rate changes. The Company does not intend, and it is more likely than not that the Company will not be required, to sell the securities before the earlier of the forecasted recovery or the maturity of the underlying debt security.

There was one held-to-maturity security in a continuous unrealized loss position at March 31, 2022. This security was in an unrealized loss position for less than 12 months. There were no held-to-maturity securities in a continuous loss position at December 31, 2021.

Obligations issued or guaranteed by government agencies such as GNMA and SBA or GSEs under conservatorship such as FNMA and 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 $6.7 million of FHLB stock at March 31, 2022 and December 31, 2021. 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, 2022 and December 31, 2021. On February 16, 2022, FHLB announced a cash dividend for the fourth quarter of 2021 at an annualized dividend rate of 6.00%, which was paid on March 10, 2022. For the three months ended March 31, 2022 and 2021, cash dividends received on FHLB capital stock in the amount of $0.1 million were recorded as non-interest income on the consolidated statements of income.

**Note 5: Loans and Allowance for Loan 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 with strong underwriting. As of March 31, 2022 and December 31, 2021, the carrying value of total loans held for investment amounted to $2.1 billion and $1.9 billion, respectively. The following table presents the balance of each major product type within the Company's portfolio as of the dates indicated.

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Real estate: | | |
| Commercial | $ 1,760,551 | $ 1,586,232 |
| Commercial land and development | 9,090 | 7,376 |
| Commercial construction | 59,293 | 54,214 |
| Residential construction | 5,540 | 7,388 |
| Residential | 28,921 | 28,562 |
| Farmland | 49,903 | 54,805 |
| Commercial: | | |
| Secured | 124,930 | 137,062 |
| Unsecured | 22,599 | 21,136 |
| Paycheck Protection Program (“PPP”) | 1,528 | 22,124 |
| Consumer and other | 19,044 | 17,167 |
| Subtotal | 2,081,399 | 1,936,066 |
| Less: Net deferred loan fees | 1,241 | 1,606 |
| Less: Allowance for loan losses | 23,904 | 23,243 |
| Loans held for investment, net of allowance for loan losses | $ 2,056,254 | $ 1,911,217 |

*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 complete 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 by 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 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. The substandard loan category includes loans that management has determined not to be impaired, as well as loans that are impaired.

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 following table summarizes the credit quality indicators related to the Company's loans by class as of March 31, 2022:

| (in thousands) | Pass | Watch | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial | $ 1,751,563 | $ 8,087 | $ 901 | $ — | $ 1,760,551 |
| Commercial land and development | 9,090 | — | — | — | 9,090 |
| Commercial construction | 53,393 | 5,900 | — | — | 59,293 |
| Residential construction | 5,540 | — | — | — | 5,540 |
| Residential | 28,744 | — | 177 | — | 28,921 |
| Farmland | 49,903 | — | — | — | 49,903 |
| Commercial: | | | | | |
| Secured | 122,996 | 14 | 1,920 | — | 124,930 |
| Unsecured | 22,599 | — | — | — | 22,599 |
| PPP | 1,528 | — | — | — | 1,528 |
| Consumer | 19,032 | — | 12 | — | 19,044 |
| Total | $ 2,064,388 | $ 14,001 | $ 3,010 | $ — | $ 2,081,399 |

The following table summarizes the credit quality indicators related to the Company's loans by class as of December 31, 2021:

| (in thousands) | Pass | Watch | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial | $ 1,575,006 | $ 1,970 | $ 9,256 | $ — | $ 1,586,232 |
| Commercial land and development | 7,376 | — | — | — | 7,376 |
| Commercial construction | 48,288 | 5,926 | — | — | 54,214 |
| Residential construction | 7,388 | — | — | — | 7,388 |
| Residential | 28,384 | — | 178 | — | 28,562 |
| Farmland | 54,805 | — | — | — | 54,805 |
| Commercial: | | | | | |
| Secured | 135,131 | 751 | 1,180 | — | 137,062 |
| Unsecured | 21,136 | — | — | — | 21,136 |
| PPP | 22,124 | — | — | — | 22,124 |
| Consumer | 17,167 | — | — | — | 17,167 |
| Total | $ 1,916,805 | $ 8,647 | $ 10,614 | $ — | $ 1,936,066 |

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 other 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, 2022 consisted of the following:

| (in thousands) | Past Due 30-89 Days | Past Due Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial | $ — | $ — | $ — | $ 1,760,551 | $ 1,760,551 |
| Commercial land and development | — | — | — | 9,090 | 9,090 |
| Commercial construction | — | — | — | 59,293 | 59,293 |
| Residential construction | — | — | — | 5,540 | 5,540 |
| Residential | — | — | — | 28,921 | 28,921 |
| Farmland | — | — | — | 49,903 | 49,903 |
| Commercial: | | | | | |
| Secured | 422 | — | 422 | 124,508 | 124,930 |
| Unsecured | — | — | — | 22,599 | 22,599 |
| PPP | — | — | — | 1,528 | 1,528 |
| Consumer and other | 127 | — | 127 | 18,917 | 19,044 |
| Total | $ 549 | $ — | $ 549 | $ 2,080,850 | $ 2,081,399 |

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, 2022.

The age analysis of past due loans by class as of December 31, 2021 consisted of the following:

| (in thousands) | Past Due 30-89 Days | Past Due Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial | $ — | $ — | $ — | $ 1,586,232 | $ 1,586,232 |
| Commercial land and development | — | — | — | 7,376 | 7,376 |
| Commercial construction | — | — | — | 54,214 | 54,214 |
| Residential construction | — | — | — | 7,388 | 7,388 |
| Residential | — | — | — | 28,562 | 28,562 |
| Farmland | — | — | — | 54,805 | 54,805 |
| Commercial: | | | | | |
| Secured | — | — | — | 137,062 | 137,062 |
| Unsecured | — | — | — | 21,136 | 21,136 |
| PPP | — | — | — | 22,124 | 22,124 |
| Consumer and other | 334 | — | 334 | 16,833 | 17,167 |
| Total | $ 334 | $ — | $ 334 | $ 1,935,732 | $ 1,936,066 |

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, 2021.

*Impaired Loans*

Information related to impaired loans as of March 31, 2022 and December 31, 2021 consisted of the following:

| | March 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With no related allowance recorded: | | | | | | |
| Real estate: | | | | | | |
| Commercial | $ 118 | $ 118 | $ — | $ 122 | $ 122 | $ — |
| Residential | 177 | 177 | — | 178 | 178 | — |
| Commercial: | | | | | | |
| Secured | 111 | 111 | — | 116 | 116 | — |
| Consumer and other | 12 | 12 | — | — | — | — |
| | $ 418 | $ 418 | $ — | $ 416 | $ 416 | $ — |
| With an allowance recorded: | | | | | | |
| Commercial: | | | | | | |
| Secured | $ 922 | $ 922 | $ 639 | $ 172 | $ 172 | $ 172 |
| | $ 922 | $ 922 | $ 639 | $ 172 | $ 172 | $ 172 |
| Total by category: | | | | | | |
| Real estate: | | | | | | |
| Commercial | $ 118 | $ 118 | $ — | $ 122 | $ 122 | $ — |
| Residential | 177 | 177 | — | 178 | 178 | — |
| Commercial: | | | | | | |
| Secured | 1,033 | 1,033 | 639 | 288 | 288 | 172 |
| Consumer and other | 12 | 12 | — | — | — | — |
| Total impaired loans | $ 1,340 | $ 1,340 | $ 639 | $ 588 | $ 588 | $ 172 |

No collateral dependent loans were in process of foreclosure at March 31, 2022 or December 31, 2021.

Information related to impaired loans for the three months ended March 31, 2022 and 2021 consisted of the following:

| | Three months ended | | | |
|---|---|---|---|---|
| | March 31, 2022 | | March 31, 2021 | |
| (in thousands) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Real estate: | | | | |
| Commercial | $ 120 | $ — | $ 136 | $ — |
| Residential | 178 | — | 182 | — |
| Commercial: | | | | |
| Secured | 174 | — | 129 | — |
| Consumer and other | 25 | — | — | — |
| | $ 497 | $ — | $ 447 | $ — |
| With an allowance recorded: | | | | |
| Commercial: | | | | |
| Secured | $ 947 | $ — | $ — | $ — |
| Consumer and other | — | — | 36 | — |
| | $ 947 | $ — | $ 36 | $ — |
| Total by category: | | | | |
| Real estate: | | | | |
| Commercial | $ 120 | $ — | $ 136 | $ — |
| Residential | 178 | — | 182 | — |
| Commercial: | | | | |
| Secured | 1,121 | — | 129 | — |
| Consumer and other | 25 | — | 36 | — |
| Total impaired loans | $ 1,444 | $ — | $ 483 | $ — |

Non-accrual loans, segregated by class, are as follows as of March 31, 2022 and December 31, 2021:

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Real estate: | | |
| Commercial | $ 118 | $ 122 |
| Residential | 177 | 178 |
| Commercial: | | |
| Secured | 1,033 | 288 |
| Total non-accrual loans | $ 1,328 | $ 588 |

The amount of foregone interest income related to non-accrual loans was $18.3 thousand and $6.8 thousand for the three months ended March 31, 2022 and 2021, respectively.

*Troubled Debt Restructuring*

The Company’s loan portfolio may include certain loans that have been modified in a troubled debt restructuring (“TDR”), which are loans for which concessions in terms have been granted because of the borrowers’ financial difficulties. These concessions typically result from the Company’s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are placed on non-accrual status at the time of restructure and may only be returned to accruing status after considering the borrower’s sustained repayment performance for a reasonable period, generally six months.

When a loan is modified, it is measured based upon the present value of future cash flows discounted at the effective interest rate of the original loan agreement or the fair value of collateral less selling costs if the loan is collateral dependent. If the value of the modified loan is less than the recorded investment in the loan, impairment is recognized through a specific allowance or a charge-off of the loan.

There were no loans outstanding with a TDR designation at March 31, 2022 or December 31, 2021.

Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), as subsequently amended by the Consolidated Appropriations Act, 2021, provided TDR relief for borrowers affected by the COVID-19 pandemic. Specifically, the CARES Act, as amended, specified that to be eligible not to be considered a TDR, a loan modification must be (i) related to the COVID-19 pandemic; (ii) executed on a loan that was not more than 30 days past due as of December 31, 2020; and (iii) executed between March 1, 2020, and the earlier of (a) 60 days after the date of termination of the federal national emergency; or (b) January 1, 2022. In accordance with section 4013 of the CARES Act, the Company elected to apply the temporary accounting relief provisions for loan modifications that met certain criteria, which would otherwise be designated TDRs under existing GAAP. As of March 31, 2022 and December 31, 2021, six borrowing relationships with six loans totaling $12.2 million were continuing to benefit from payment relief. The Company accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid.

The following table discloses activity in the allowance for loan losses for the periods presented.

| | Real Estate | | | | | | Commercial | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Comml | Comml Land and Devel | Comml Const | Resid Const | Resid | Farm-land | Secured | Unsec | PPP | Consu | Unal | Total |
| **Three months ended March 31, 2022** | | | | | | | | | | | | |
| Beginning balance | $ 12,869 | $ 50 | $ 371 | $ 50 | $ 192 | $ 645 | $ 6,859 | $ 207 | $ — | $ 889 | $ 1,111 | $ 23,243 |
| Charge-offs | — | — | — | — | — | — | (309) | — | — | (67) | — | (376) |
| Recoveries | — | — | — | — | — | — | 46 | — | — | 41 | — | 87 |
| Provision (recapture) | 999 | 16 | 59 | (10) | 16 | (34) | 443 | 39 | — | 225 | (803) | 950 |
| Ending balance | $ 13,868 | $ 66 | $ 430 | $ 40 | $ 208 | $ 611 | $ 7,039 | $ 246 | $ — | $ 1,088 | $ 308 | $ 23,904 |
| **Three months ended March 31, 2021** | | | | | | | | | | | | |
| Beginning balance | $ 9,358 | $ 77 | $ 821 | $ 87 | $ 220 | $ 615 | $ 9,476 | $ 179 | $ — | $ 632 | $ 724 | $ 22,189 |
| Charge-offs | — | — | — | — | — | — | (255) | — | — | — | — | (255) |
| Recoveries | — | — | — | — | — | — | 87 | — | — | 50 | — | 137 |
| Provision (recapture) | 861 | 3 | (317) | (30) | (32) | (37) | (390) | 16 | — | (82) | 208 | 200 |
| Ending balance | $ 10,219 | $ 80 | $ 504 | $ 57 | $ 188 | $ 578 | $ 8,918 | $ 195 | $ — | $ 600 | $ 932 | $ 22,271 |

The following table summarizes the allocation of the allowance for loan losses by impairment methodology for the periods presented.

| | Real Estate | | | | | | Commercial | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Comml | Comml Land and Devel | Comml Const | Resid Const | Resid | Farm-land | Secured | Unsec | PPP | Consu | Unal | Total |
| **As of March 31, 2022:** | | | | | | | | | | | | |
| Ending allowance balance allocated to: | | | | | | | | | | | | |
| Loans individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ 639 | $ — | $ — | $ — | $ — | $ 639 |
| Loans collectively evaluated for impairment | 13,868 | 66 | 430 | 40 | 208 | 611 | 6,400 | 246 | — | 1,088 | 308 | 23,265 |
| Ending balance | $ 13,868 | $ 66 | $ 430 | $ 40 | $ 208 | $ 611 | $ 7,039 | $ 246 | $ — | $ 1,088 | $ 308 | $ 23,904 |
| Loans: | | | | | | | | | | | | |
| Ending balance individually evaluated for impairment | $ 118 | $ — | $ — | $ — | $ 177 | $ — | $ 1,034 | $ — | $ — | $ 12 | $ — | $ 1,341 |
| Ending balance collectively evaluated for impairment | 1,760,433 | 9,090 | 59,293 | 5,540 | 28,744 | 49,903 | 123,896 | 22,599 | 1,528 | 19,032 | — | 2,080,058 |
| Ending balance | $ 1,760,551 | $ 9,090 | $ 59,293 | $ 5,540 | $ 28,921 | $ 49,903 | $ 124,930 | $ 22,599 | $ 1,528 | $ 19,044 | $ — | $ 2,081,399 |
| **As of December 31, 2021:** | | | | | | | | | | | | |
| Ending allowance balance allocated to: | | | | | | | | | | | | |
| Loans individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ 172 | $ — | $ — | $ — | $ — | $ 172 |
| Loans collectively evaluated for impairment | 12,869 | 50 | 371 | 50 | 192 | 645 | 6,687 | 207 | — | 889 | 1,111 | 23,071 |
| Ending balance | $ 12,869 | $ 50 | $ 371 | $ 50 | $ 192 | $ 645 | $ 6,859 | $ 207 | $ — | $ 889 | $ 1,111 | $ 23,243 |
| Loans: | | | | | | | | | | | | |
| Ending balance individually evaluated for impairment | $ 122 | $ — | $ — | $ — | $ 178 | $ — | $ 288 | $ — | $ — | $ — | $ — | $ 588 |
| Ending balance collectively evaluated for impairment | 1,586,110 | 7,376 | 54,214 | 7,388 | 28,384 | 54,805 | 136,774 | 21,136 | 22,124 | 17,167 | — | 1,935,478 |
| Ending balance | $ 1,586,232 | $ 7,376 | $ 54,214 | $ 7,388 | $ 28,562 | $ 54,805 | $ 137,062 | $ 21,136 | $ 22,124 | $ 17,167 | $ — | $ 1,936,066 |

*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 $1.2 billion and $941.2 million at March 31, 2022 and December 31, 2021, respectively. In addition, the Company pledges eligible tenants in common loans, which totaled $29.7 million and $33.4 million at March 31, 2022 and December 31, 2021, respectively, to secure its borrowing capacity with the Federal Reserve Bank of San Francisco. See Note 8, Long Term Debt and Other Borrowings, for further discussion of these borrowings.

*Related Party Loans*

The Company has, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, principal shareholders, and their businesses or associates. In accordance with applicable regulations and Bank policies, these loans are granted on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with persons not related to the Company. Likewise, these transactions do not involve more than the normal risk of collectability or present other unfavorable features. Loan commitment to insiders and affiliates, net of cash collateral, totaled $8.9 million at March 31, 2022 and $9.7 million at December 31, 2021.

**Note 6: Interest-Bearing Deposits**

Interest-bearing deposits consisted of the following as of March 31, 2022 and December 31, 2021:

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Savings | $ 92,370 | $ 88,536 |
| Money market | 919,281 | 912,558 |
| Interest checking | 371,122 | 278,406 |
| Time, $250 or more | 152,877 | 77,868 |
| Other time | 26,157 | 26,404 |
| Total interest-bearing deposits | $ 1,561,807 | $ 1,383,772 |

Time deposits totaled $179.0 million and $104.3 million as of March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022, scheduled maturities of time deposits for the next five years were as follows:

| (in thousands) | |
|---|---|
| 2022 | $ 177,996 |
| 2023 | 599 |
| 2024 | 438 |
| 2025 | — |
| 2026 | 1 |
| Total time deposits | $ 179,034 |

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. The following table shows the composition of network deposits for March 31, 2022 and December 31, 2021. There were no one-way deposits at March 31, 2022 and December 31, 2021. The composition of network deposits as of March 31, 2022 and December 31, 2021 was as follows:

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| CDARS | $ 22,160 | $ 22,411 |
| ICS | 327,384 | 307,636 |
| Total network deposits | $ 349,544 | $ 330,047 |

At March 31, 2022 and December 31, 2021, deposits from related parties (directors, executive officers, and principal shareholders) totaled $39.6 million and $32.4 million, respectively.

Interest expense recognized on interest-bearing deposits for periods ended March 31, 2022, and 2021 consisted of the following:

| | Three months ended | |
|---|---|---|
| (in thousands) | March 31, 2022 | March 31, 2021 |
| Savings | $ 25 | $ 15 |
| Money market | 367 | 582 |
| Interest checking | 70 | 38 |
| Time, $250 or more | 59 | 7 |
| Other time | 24 | 57 |
| Total interest expense on interest-bearing deposits | $ 545 | $ 699 |

**Note 7: Leases**

The Company leases office space for its banking operations under non-cancelable operating leases of various terms. The leases expire at dates through 2032 and provide for renewal options from zero to five years. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties. One of the leases provides for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, while the remaining leases include pre-defined rental increases over the term of the lease.

The Company has a sublease agreement for space adjacent to the Redding location. The sublease has renewal terms extended to December 31, 2022.

The Company leases its Sacramento loan production office from a partnership comprised of some of the Company's shareholders and certain members of its board of directors. The Sacramento loan production office lease extends through April 2023. Additionally, the Company leased its Natomas branch from the same partnership of related parties until July 13, 2021, at which time ownership of the property was transferred to an unrelated third-party landlord. Rent expense paid to the partnership under these leases was insignificant for the three months ended March 31, 2022 and $0.1 million for the three months ended March 31, 2021.

The Company adopted ASU 2016-02, *Leases (Topic 842)* as of January 1, 2022, which requires the Company to record an ROUA on the consolidated balance sheets for those leases that convey rights to control use of identified assets for a period of time in exchange for consideration. The Company is also required to record a lease liability on the consolidated balance sheets for the present value of future payment commitments. All of the Company's leases are comprised of operating leases in which the Company is the lessee of real estate property for branches and operations. The Company elected not to include short-term leases (i.e., leases with initial terms of 12 months or less) within the ROUA and lease liability. Known or determinable adjustments to the required minimum future lease payments were included in the calculation of the Company's ROUA and lease liability. Adjustments to the required minimum future lease payments that are variable and will not be determinable until a future period, if any, such as changes in the Consumer Price Index, are included as variable lease costs. Additionally, expected variable payments for common area maintenance, taxes, and insurance were unknown and not determinable at lease commencement and, therefore, were not included in the determination of the Company's ROUA or lease liability.

The value of the ROUA and lease liability is impacted by the amount of the periodic payment required, length of the lease term, and the discount rate used to calculate the present value of the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROUA and lease liability. ASC 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2022, the rate for the remaining lease term as of January 1, 2022 was used. The lease liability is reduced based on the discounted present value of remaining payments as of each reporting period. The ROUA value is measured using the lease liability as adjusted for prepaid or accrued lease payments and remaining lease incentives, unamortized direct costs, and impairment, if any.

The following table presents the components of lease expense for the three months ended March 31, 2022:

| (in thousands) | Three months ended March 31, 2022 |
|---|---|
| Operating lease cost | $ 285 |
| Short-term lease cost | — |
| Variable lease cost | — |
| Sublease income | (5) |
| Total lease cost | $ 280 |

Prior to the adoption of ASU 2016-02, rent expense under operating leases was $0.3 million during the three months ended March 31, 2021. Rent expense was partially offset by rent income of $5.2 thousand during the three months ended March 31, 2021.

The following table presents the weighted average operating lease term and discount rate at March 31, 2022:

| | March 31, 2022 |
|---|---|
| Weighted average remaining lease term (in years) | 5.87 years |
| Weighted average discount rate | 2.14 % |

The following table shows the future expected operating lease payments under the Company's operating lease agreements as of March 31, 2022:

| (in thousands) | | |
|---|---|---|
| 2022 | $ | 803 |
| 2023 | | 1,009 |
| 2024 | | 984 |
| 2025 | | 767 |
| 2026 | | 665 |
| Thereafter | | 1,107 |
| Total expected operating lease payments | | 5,335 |
| Discount for present value of expected cash flows | | (348) |
| Lease liability at March 31, 2022 | $ | 4,987 |

**Note 8: Long Term Debt and Other Borrowings**

Subordinated notes: On November 8, 2019, the Company completed a private placement of $3.8 million of fixed-to-floating rate subordinated notes to certain qualified investors. All of the debt was purchased by four existing members of the board of directors or their affiliates. The notes were used for general corporate purposes, capital management, and to support future growth. The subordinated notes have a maturity date of September 15, 2027 and bear interest, payable semi-annually, at the rate of 5.50% per annum until September 15, 2022. On that date, the interest rate will be adjusted to float at a rate equal to the three-month LIBOR plus 354.4 basis points (4.38% as of March 31, 2022) until maturity. The notes include a right of prepayment, on or after September 15, 2022 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.

On September 28, 2017, the Company completed a private placement of $25.0 million of fixed-to-floating rate subordinated notes to certain qualified investors, of which $8.0 million is owned by an entity that is controlled by a member of the board of directors and three principal shareholders. The notes were used for general corporate purposes, capital management, and to support future growth. The subordinated notes have a maturity date of September 15, 2027 and bear interest, payable semi-annually, at the rate of 6.00% per annum until September 15, 2022. On that date, the interest rate will be adjusted to float at a rate equal to the three-month LIBOR plus 404.4 basis points (4.88% as of March 31, 2022) until maturity. The notes include a right of prepayment, on or after September 15, 2022 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. Debt issuance costs incurred in conjunction with the notes were $0.6 million, of which $0.3 million has been amortized through March 31, 2022. 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, 2022 and December 31, 2021, the Company's subordinated debt outstanding was $28.4 million.

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 $855.9 million at March 31, 2022 and $696.3 million at December 31, 2021. At March 31, 2022 and December 31, 2021, the Company had no outstanding borrowings. As of March 31, 2022 and December 31, 2021, the Company had letters of credit ("LCs") issued on its behalf totaling $495.5 million and $420.5 million, respectively, as discussed below.

At March 31, 2022 and December 31, 2021, LCs totaling $155.5 million and $80.5 million, respectively, were pledged to secure State of California deposits and $340.0 million were pledged to secure local agency deposits. The LCs issued reduced the Company's available borrowing capacity to $360.4 million and $275.8 million as of March 31, 2022 and December 31, 2021, respectively.

At December 31, 2021, the Company had five unsecured federal funds lines of credit totaling $150.0 million with five of its correspondent banks, respectively. During the quarter ended March 31, 2022, the borrowing capacity of one of the Company's existing unsecured federal funds lines of credit was increased by $10.0 million. As a result, at March 31, 2022, the Company had five unsecured federal funds lines of credit totaling $160.0 million with five of its correspondent banks, respectively. There were no amounts outstanding at March 31, 2022 and December 31, 2021.

At March 31, 2022 and December 31, 2021, the Company had the ability to borrow from the Federal Reserve Discount Window. At March 31, 2022 and December 31, 2021, the borrowing capacity under this arrangement was $18.0 million and $17.0 million, respectively. There were no amounts outstanding at March 31, 2022 and December 31, 2021. The borrowing line is secured by liens on the Company's construction and agricultural loan portfolios.

**Note 9: Income Taxes**

The Company terminated its status as a Subchapter S Corporation as of May 5, 2021, in connection with the IPO and became a taxable C Corporation. Prior to that date, as an S Corporation, the Company had no U.S. federal income tax expense. As such, any periods prior to May 5, 2021 will only reflect a state income tax rate and corresponding tax expense. Pro forma net income is calculated by adding back S Corporation tax to net income and using a combined C Corporation statutory tax rate for federal and state income taxes of 29.56%. For the 2022 period presented below, the tax rate reflects the actual effective tax rate for the three months ended March 31, 2022, as the Company was a C Corporation for the entire period. The following reconciliation table provides a detailed calculation of pro forma provision for income taxes:

| (in thousands) | For the three months ended March 31, 2022 | March 31, 2021 |
|---|---|---|
| Net income before provision for income taxes | $ 13,522 | $ 10,660 |
| Effective/pro forma tax rate | 27.07 % | 29.56 % |
| Actual/pro forma provision for income taxes | $ 3,660 | $ 3,151 |

The provision for income tax for the three months ended March 31, 2022 and 2021 differs from the statutory federal rate of 21.00% due to the following items, which relate primarily to the Company's conversion from an S Corporation to a C Corporation during the second quarter of 2021:

| (in thousands) | For the three months ended March 31, 2022 | March 31, 2021 |
|---|---|---|
| Statutory U.S. federal income tax | $ 2,840 | $ 2,239 |
| Increase (decrease) resulting from: | | |
| Benefit of S Corporation status | — | (2,239) |
| State taxes | 1,157 | 382 |
| Other | (337) | — |
| Provision for income taxes | $ 3,660 | $ 382 |

For the three months ended March 31, 2022, the Company's federal and state statutory tax rate, net of federal benefit, of 29.56%, differed from the statutory California tax rate of 3.50% used for the three months ended March 31, 2021 due to the termination of the Company's Subchapter S Corporation status as of May 5, 2021.

**Note 10: Shareholders' Equity**

*Dividends*

On January 20, 2022, the board of directors declared a $0.15 per common share dividend, totaling $2.6 million. On March 17, 2022, based on the filing of the Company's final S Corporation tax return, the board of directors declared a $0.45 per common share dividend to shareholders of record as of May 3, 2021, totaling $4.9 million, which was the remaining balance of the Company's accumulated adjustments account, and is described in further detail in the Company's Proxy Statement filed with the SEC and mailed to shareholders on April 6, 2022.

*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 loan 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 monthly 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.

The Company granted 22,201 and 9,454 restricted shares during the three months ended March 31, 2022 and 2021, respectively. In addition, 850 and 2,722 restricted shares were forfeited during the three months ended March 31, 2022 and 2021, respectively. Non-cash stock compensation expense recognized for the three months ended March 31, 2022 and 2021 was $0.3 million and $0.1 million, respectively.

At March 31, 2022 and 2021, respectively, there were 138,856 and 6,296 unvested restricted shares. As of March 31, 2022, there was approximately $2.5 million of unrecognized compensation expense related to the 138,856 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. The impact of tax benefits for dividends paid on unvested restricted stock on the Company’s consolidated statements of income for the three months ended March 31, 2022 and 2021 was immaterial.

The following table summarizes information about unvested restricted shares:

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Beginning of the period balance | 127,751 | $ 19.95 | 11,568 | $ 21.25 |
| Shares granted | 22,201 | 28.50 | 9,454 | 18.00 |
| Shares vested | (10,246) | 24.85 | (12,004) | 20.45 |
| Shares forfeited | (850) | 20.00 | (2,722) | 18.88 |
| End of the period balance | 138,856 | $ 20.95 | 6,296 | $ 18.91 |

**Note 11: 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 consolidated balance sheets are as follows:

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Commercial lines of credit | $ 116,857 | $ 137,354 |
| Undisbursed construction loans | 48,918 | 46,584 |
| Undisbursed commercial real estate loans | 65,592 | 47,793 |
| Agricultural lines of credit | 11,608 | 9,955 |
| Undisbursed agricultural real estate loans | 3,428 | 3,427 |
| Other | 3,040 | 3,764 |
| Total commitments and standby letters of credit | $ 249,443 | $ 248,877 |

The Company records an allowance for loan 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 loan losses on unfunded commitments totaled $0.1 million as of March 31, 2022 and December 31, 2021, which is recorded in interest payable and other liabilities in the 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 91.98% of the Company's loans held for investment at March 31, 2022 and 89.87% of the Company's loans held for investment at December 31, 2021. 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, 2022, the Company had 66 deposit relationships that exceeded $5.0 million each, totaling $1.2 billion, or approximately 46.75% of total deposits. The Company's largest single deposit relationship at March 31, 2022 totaled $182.4 million, or approximately 7.29% 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 $77.3 million and $147.2 million at March 31, 2022 and December 31, 2021, 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 12: Subsequent Events**

On April 21, 2022, the board of directors declared a $0.15 per common share dividend, totaling $2.6 million.

**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 Company's Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the U.S. Securities and Exchange Commission ("SEC") on February 25, 2021. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

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. In addition to containing historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section entitled "Cautionary Note Regarding Forward-Looking Statements" herein and in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. We assume no obligation to update any of these forward-looking statements, except to the extent required by law.

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.

**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 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 two loan production offices. 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, 2022, we had total assets of $2.8 billion, total loans held for investment, net of allowance for loan losses, of $2.1 billion, and total deposits of $2.5 billion.

**Factors Affecting Comparability of Financial Results**

*S Corporation Status*

Beginning at our inception, we elected to be taxed for U.S. federal income tax purposes as an S Corporation. In conjunction with our initial public offering (“IPO”), we filed consents from the requisite amount of our shareholders to revoke our S Corporation election with the Internal Revenue Service (“IRS”), resulting in the commencement of our taxation as a C Corporation for U.S. federal and California state income tax purposes in the second quarter of fiscal year 2021. Prior to such revocation, our earnings were not subject to, and we did not pay, U.S. federal income tax, and we were not required to make any provision or recognize any liability for U.S. federal income tax in our consolidated financial statements. While we were not subject to, and did not pay, U.S. federal income tax, we were subject to, and paid, California S Corporation income tax at a current rate of 3.50%. Upon the termination of our status as an S Corporation, we commenced paying U.S. federal income tax and a higher California state income tax on our taxable earnings for each year (including the short year beginning on the date our status as an S Corporation terminated), and our consolidated financial statements reflect a provision for U.S. federal income tax and a higher California state income tax from that date forward. As a result of this change, the net income and earnings per share (“EPS”) data presented in our historical financial statements for periods prior to the termination of our S Corporation status, and the other related financial information set forth in this filing, which (unless otherwise specified) do not include any provision for U.S. federal income tax or the higher California state income tax rate, will not be comparable with our net income and EPS in periods after we commenced being taxed as a C Corporation. As a C Corporation, our net income is calculated by including a provision for U.S. federal income tax and a higher California state income tax rate at a combined statutory rate of 29.56%.

The termination of our status as an S Corporation may also affect our financial condition and cash flows. Historically, we made quarterly cash distributions to our shareholders in amounts estimated by us to be sufficient for them to pay estimated individual U.S. federal and California state income tax liabilities resulting from our taxable income that was “passed through” to them. However, these distributions were not consistent, as sometimes the distributions were less than or in excess of the shareholders’ estimated U.S. federal and California state income tax liabilities resulting from their ownership of our stock. In addition, these estimates were based on individual income tax rates, which may differ from the rates imposed on the income of C Corporations. As a C Corporation, no income is “passed through” to any shareholders, but, as noted above, we commenced paying U.S. federal income tax and a higher California state income tax. However, in the event of an adjustment to our reported taxable income for periods prior to the termination of our S Corporation status, it is possible that our pre-IPO shareholders would be liable for additional income taxes for those prior periods. Pursuant to the Tax Sharing Agreement we entered into with such shareholders, upon our filing any tax return (amended or otherwise), in the event of any restatement of our taxable income or pursuant to a determination by, or a settlement with, a taxing authority, for any period during which we were an S Corporation, depending on the nature of the adjustment, we may be required to make a payment to such shareholders, who accepted distribution of the estimated balance of our federal accumulated adjustments account of $31.9 million under the Tax Sharing Agreement, in an amount equal to such shareholders’ incremental tax liability (including interest and penalties). In addition, the Tax Sharing Agreement provides that we will indemnify such shareholders with respect to unpaid income tax liabilities (including interest and penalties) to the extent that such unpaid income tax liabilities are attributable to an adjustment to our taxable income for any period after our S Corporation status terminated. The amounts that we have historically distributed to our shareholders may not be indicative of the amount of U.S. federal and California state income tax that we will be required to pay going forward. Depending on our effective tax rate and our future dividend rate, our future cash flows and financial condition could be positively or adversely affected compared to our historical cash flows and financial condition.

Furthermore, deferred tax assets and liabilities will be recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of our existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of the change in tax rates resulting from becoming a C Corporation was recognized in net income in the three months ended June 30, 2021.

Refer to the highlights of the financial results table within the section entitled “—Executive Summary” below for the impact of being taxed as a C Corporation on our net income, EPS, and various other financial measures for the three months ended March 31, 2022 and 2021.

*Public Company Costs*

Following the completion of our IPO, we began to, and will continue to, incur additional costs associated with operating as a public company. These costs include additional personnel, legal, consulting, regulatory, insurance, accounting, investor relations, and other expenses that we did not incur as a private company.

The Sarbanes-Oxley Act, as well as rules adopted by the SEC, the Federal Deposit Insurance Corporation ("FDIC"), and national securities exchanges, require public companies to implement specified corporate governance practices that were inapplicable to us as a private company. These additional rules and regulations have increased, and are expected to continue to increase, our legal, regulatory, and financial compliance costs and will make some activities more time-consuming and costly.

**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 accounting principles generally accepted in the United States of America ("GAAP") as contained within the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("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 Annual Report on Form 10-K as of and for the year ended December 31, 2021, 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 Annual Report on Form 10-K for the year ended December 31, 2021. We have identified accounting policies and estimates, discussed below, 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 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, 2022 totaled $9.9 million, compared to net income of $10.3 million for the three months ended March 31, 2021.

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

- ***Assets.*** Total assets were $2.8 billion at March 31, 2022, representing a $221.5 million, or 8.66%, increase compared to $2.6 billion at December 31, 2021. The primary drivers of this increase are discussed below.

- ***Loans.*** Total loans held for investment were $2.1 billion at March 31, 2022, compared to $1.9 billion at December 31, 2021, an increase of $145.7 million, or 7.53%. The increase was primarily attributed to a $174.3 million net increase in commercial real estate loans, partially offset by a $20.6 million net decrease in Paycheck Protection Program ("PPP") loans, and a $12.1 million net decrease in commercial secured loans.

- ***PPP Loans.*** As of March 31, 2022, there were five PPP loans outstanding totaling $1.5 million. Two of these PPP loans, or 40.00% of total PPP loans as of March 31, 2022, totaling $0.1 million were less than or equal to $0.15 million and had access to streamlined forgiveness processing. As of March 31, 2022, 1,424 PPP loan forgiveness applications had been submitted to the SBA and forgiveness payments had been received on 1,422 of these PPP loans, totaling $353.2 million in principal and interest. We expect full forgiveness, or repayment by the borrower, on all PPP loans to be completed in the near future.

- ***COVID-19 Deferments.*** As of March 31, 2022, six borrowing relationships with six loans totaling $12.2 million were on COVID-19 deferment. All loans that ended COVID-19 deferments in the quarter ended March 31, 2022 returned to their contractual payment structures prior to the COVID-19 pandemic with no risk rating downgrades to classified nor any troubled debt restructuring ("TDR"), and we anticipate that the remaining loans on COVID-19 deferment will return to their pre-COVID-19 contractual payment statuses after their COVID-19 deferments end.

- ***Non-accrual Loans.*** Credit quality remains strong, with non-accrual loans representing $1.3 million, or 0.06% of total loans held for investment, at March 31, 2022, compared to $0.6 million, or 0.03% of total loans held for investment, at December 31, 2021. The ratio of allowance for loan losses to total loans held for investment, or total loans at period end, was 1.15% at March 31, 2022 and 1.20% at December 31, 2021.

- ***Return on Average Assets ("ROAA") and Return on Average Equity ("ROAE").*** ROAA and ROAE were 1.53% and 17.07%, respectively, for the quarter ended March 31, 2022, as compared to ROAA of 2.05% and ROAE of 32.08% for the quarter ended March 31, 2021. Pro forma ROAA and ROAE for the quarter ended March 31, 2022 were equal to actual ROAA and ROAE of 1.53% and 17.07%, respectively, as compared to pro forma ROAA of 1.49% and ROAE of 23.67% for the quarter ended March 31, 2021.

- ***Net Interest Margin.*** Net interest margin was 3.60% and 3.83% for the three months ended March 31, 2022 and 2021, respectively. The fluctuations period-over-period were primarily attributable to decreases in average loan yields and increases in the Company's interest-earning assets.

- ***Efficiency Ratio.*** Efficiency ratio was 39.82% for the three months ended March 31, 2022, down from 44.77% for the corresponding period of 2021. The decrease was primarily attributable to an increase in net interest income period-over-period.

- ***Deposits.*** Total deposits increased by $217.2 million from $2.3 billion at December 31, 2021 to $2.5 billion at March 31, 2022. 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 increased by $39.2 million in the first three months of 2021 to $941.3 million, and represented 37.60% of total deposits at March 31, 2022, compared to 39.46% of total deposits at December 31, 2021. Our loan to deposit ratio was 83.52% at March 31, 2022, compared to 85.09% at December 31, 2021.

- ***Capital Ratios***. All capital ratios were above well-capitalized regulatory thresholds as of March 31, 2022. The total risk-based capital ratio for the Company was 13.07% at March 31, 2022, compared to 13.98% at December 31, 2021. The ratio of Tier 1 capital to average assets was 9.02% at March 31, 2022, compared to 9.47% at December 31, 2021. 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 20, 2022. Additionally, on March 17, 2022, based on the filing of the Company's final S Corporation tax return, the board of directors declared a $0.45 per common share dividend to shareholders of record as of May 3, 2021, totaling $4.9 million.

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

| **(dollars in thousands)** | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| **Selected financial condition data:** | | |
| Total assets | $ 2,778,249 | $ 2,556,761 |
| Total loans held for investment | 2,080,158 | 1,934,460 |
| Total deposits | 2,503,092 | 2,285,890 |
| Total subordinated notes, net | 28,403 | 28,386 |
| Total shareholders' equity | 231,061 | 235,046 |
| **Asset quality ratios:** | | |
| Allowance for loan losses to total loans held for investment | 1.15 % | 1.20 % |
| Allowance for loan losses to total loans held for investment, excluding PPP loans[1] | 1.15 % | 1.22 % |
| Allowance for loan losses to non-accrual loans | 1,799.99 % | 3,954.30 % |
| Non-accrual loans to total loans held for investment | 0.06 % | 0.03 % |
| **Capital ratios:** | | |
| Total capital (to risk-weighted assets) | 13.07 % | 13.98 % |
| Tier 1 capital (to risk-weighted assets) | 10.70 % | 11.44 % |
| Common equity Tier 1 capital (to risk-weighted assets) | 10.70 % | 11.44 % |
| Tier 1 leverage | 9.02 % | 9.47 % |
| Total shareholders' equity to total assets ratio | 8.32 % | 9.19 % |
| Tangible shareholders' equity to tangible assets[2] | 8.32 % | 9.19 % |

| (dollars in thousands, except per share data) | For the three months ended March 31, 2022 | March 31, 2021 |
|---|---|---|
| **Selected operating data:** | | |
| Net interest income | $ 21,862 | $ 18,048 |
| Provision for loan losses | 950 | 200 |
| Non-interest income | 2,185 | 1,616 |
| Non-interest expense | 9,575 | 8,804 |
| Net income | 9,862 | 10,278 |
| Net income per common share: | | |
| Basic | $ 0.58 | $ 0.93 |
| Diluted | $ 0.58 | $ 0.93 |
| **Selected pro forma operating data:** | | |
| Pro forma net income[3] | 9,862 | 7,509 |
| Pro forma provision for income taxes[3] | 3,660 | 3,151 |
| Pro forma net income per common share[3]: | | |
| Basic | $ 0.58 | $ 0.68 |
| Diluted | $ 0.58 | $ 0.68 |
| **Performance and other financial ratios:** | | |
| ROAA | 1.53 % | 2.05 % |
| ROAE | 17.07 % | 32.08 % |
| Net interest margin | 3.60 % | 3.83 % |
| Cost of funds | 0.17 % | 0.24 % |
| Efficiency ratio | 39.82 % | 44.77 % |
| Cash dividend payout ratio on common stock[4] | 25.86 % | 107.10 % |
| **Selected pro forma ratios:** | | |
| Pro forma ROAA[3,5] | 1.53 % | 1.49 % |
| Pro forma ROAE[3,5] | 17.07 % | 23.67 % |

1 The allowance for loan losses to total loans held for investment, excluding PPP loans, 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. Allowance for loan losses to total loans held for investment, excluding PPP loans, is defined as allowance for loan losses, divided by total loans held for investment less PPP loans. The most directly comparable GAAP financial measure is allowance for loan losses to total loans held for investment.

2 Tangible shareholders' equity to tangible assets is considered to be 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.

3 For the three months ended March 31, 2021, we calculate our pro forma net income, provision for income taxes, net income per common share, ROAA, and ROAE by adding back our S Corporation tax to net income and applying a combined C Corporation effective tax rate for U.S. federal and California state income taxes of 29.56%. This calculation reflects only the change in our status as an S Corporation and does not give effect to any other transaction. For the three months ended March 31, 2022, our pro forma provision for income tax expense is the same as our actual C Corporation provision, given that the Company was taxed as a C Corporation for the entirety of the three month period, and thus pro forma calculations for the three months ended March 31, 2022 are equal to actuals.

4 Cash dividend payout ratio on common stock is calculated as dividends on common shares divided by basic net income per common share.

5 Pro forma ROAA and ROAE are calculated using pro forma net income balances, with no adjustments to average assets and average equity balances.

## RESULTS OF OPERATIONS

The following discussion of our results of operations compares the three months ended March 31, 2022 to the three months ended March 31, 2021. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2022.

### 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.

Three months ended March 31, 2022 compared to three months ended March 31, 2021

Net interest income increased by $3.8 million, or 21.13%, to $21.9 million for the quarter ended March 31, 2022 from $18.0 million for the quarter ended March 31, 2021. Our net interest margin of 3.60% for the quarter ended March 31, 2022 decreased from our net interest margin of 3.83% for the quarter ended March 31, 2021, primarily due to a decrease in average loan yields, which decreased from 4.95% for the three months ended March 31, 2021 to 4.53% for the three months ended March 31, 2022. These decreases were primarily due to changes in the macroeconomic environment, which caused a majority of the Company's fixed-rate loans funded in the current quarter to recognize yields lower than those recognized in prior quarters. The rates associated with the index utilized for a significant portion of the Company's variable rate loans, the United States 5 Year Treasury index, were higher during the three months ended March 31, 2022, as compared to the three months ended March 31, 2021, but a majority of these loans were not scheduled to reprice during the three months ended March 31, 2022, also contributing to the downward trend in average loan yields. New loan originations drove increases in the average daily balance of loans from the three months ended March 31, 2021 to the three months ended March 31, 2022, which partially offset the aforementioned declining average loan yields.

*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 and rates paid for each period reported. The average balances are daily averages and include both performing and nonperforming loans.

| | For the three months ended March 31, 2022 | | | For the three months ended March 31, 2021 | | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Average Balance** | **Interest Income/ Expense** | **Average Yield/ Rate** | **Average Balance** | **Interest Income/ Expense** | **Average Yield/ Rate** |
| Assets | | | | | | |
| Interest-earning deposits with banks[1] | $ 339,737 | $ 192 | 0.23 % | $ 263,120 | $ 104 | 0.16 % |
| Investment securities[2] | 148,736 | 567 | 1.54 % | 121,862 | 473 | 1.57 % |
| Loans held for investment and sale[1,3] | 1,977,509 | 22,091 | 4.53 % | 1,526,130 | 18,613 | 4.95 % |
| Total interest-earning assets[1] | 2,465,982 | 22,850 | 3.76 % | 1,911,112 | 19,190 | 4.07 % |
| Interest receivable and other assets, net | 150,116 | | | 125,981 | | |
| **Total assets** | $ 2,616,098 | | | $ 2,037,093 | | |
| Liabilities and shareholders' equity | | | | | | |
| Interest-bearing transaction accounts | $ 276,690 | $ 70 | 0.10 % | $ 154,678 | $ 38 | 0.10 % |
| Savings accounts | 90,815 | 25 | 0.11 % | 60,885 | 16 | 0.11 % |
| Money market accounts | 920,767 | 367 | 0.16 % | 867,374 | 581 | 0.27 % |
| Time accounts | 128,183 | 83 | 0.26 % | 46,171 | 64 | 0.56 % |
| Subordinated debt[1] | 28,393 | 443 | 6.33 % | 28,326 | 443 | 6.36 % |
| Total interest-bearing liabilities | 1,444,848 | 988 | 0.28 % | 1,157,434 | 1,142 | 0.40 % |
| Demand accounts | 922,128 | | | 745,605 | | |
| Interest payable and other liabilities | 14,800 | | | 5,418 | | |
| Shareholders' equity | 234,322 | | | 128,636 | | |
| **Total liabilities and shareholders' equity** | $ 2,616,098 | | | $ 2,037,093 | | |
| Net interest spread[4] | | | 3.48 % | | | 3.67 % |
| Net interest income/margin[5] | | $ 21,862 | 3.60 % | | $ 18,048 | 3.83 % |

1 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.

2 Yields on available-for-sale securities are calculated based on amortized cost balances rather than fair value, as changes in fair value are reflected as a component of shareholders' equity. Investment security interest is earned on 30/360 day basis monthly. Yields are not calculated on a tax-equivalent basis.

3 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.

4 Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.

5 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/interest 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.

| | For the three months ended March 31, 2022 compared to the three months ended March 31, 2021 | | |
|---|---|---|---|
| **(dollars in thousands)** | **Volume** | **Yield/Rate** | **Total** |
| Interest-earning deposits with banks | $ 43 | $ 45 | $ 88 |
| Investment securities | 101 | (7) | 94 |
| Loans held for investment and sale | 5,063 | (1,585) | 3,478 |
| Total interest-earning assets | 5,207 | (1,547) | 3,660 |
| Interest-bearing transaction accounts | 31 | 1 | 32 |
| Savings accounts | 9 | — | 9 |
| Money market accounts | 22 | (236) | (214) |
| Time accounts | 52 | (33) | 19 |
| Subordinated debt | — | — | — |
| Total interest-bearing liabilities | 114 | (268) | (154) |
| Changes in net interest income/margin | $ 5,093 | $ (1,279) | $ 3,814 |

Total interest income increased by $3.7 million, or 19.07%, to $22.9 million for the three months ended March 31, 2022 from $19.2 million for the corresponding period for 2021. For the three months ended March 31, 2022, interest income from loans increased by $3.5 million to $22.1 million, as the average daily balance of loans increased by $451.4 million, or 29.58%, compared to the same period of 2021. This increase in interest income from greater average loan balances was offset by a 42 basis point decrease in loan yield to 4.53% for the three months ended March 31, 2022 as compared to the same period of 2021, as discussed above. Additionally, $0.6 million of PPP income from forgiven PPP loans was recognized in the three months ended March 31, 2022, compared to $2.0 million during the same period of 2021. Excluding PPP loans, average loans held for investment and sale increased by $618.9 million to $2.0 billion, and the related yield declined by 44 basis points for the three months ended March 31, 2022 compared to the same period of 2021. Average loans held for investment and sale, excluding PPP loans, and average loan yield, excluding PPP loans, are considered to be non-GAAP financial measures. 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.

Total interest expense decreased by $0.2 million to $1.0 million for the three months ended March 31, 2022 from $1.1 million for the same period of 2021. Interest expense on customer deposits decreased by $0.2 million to $0.5 million for the three months ended March 31, 2022 from $0.7 million for the same period of 2021. This decrease is due to the cost of interest-bearing liabilities declining by 12 basis points to 0.28% for the three months ended March 31, 2022 from 0.40% for the same period of 2021, reflecting reductions in the rates offered on money market and maturing deposit products during the period.

**Provision for Loan Losses**

The provision for loan losses is based on management's assessment of the adequacy of our allowance for loan 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 loan losses is charged against earnings in order to maintain our allowance for loan losses, which reflects management's best estimate of probable losses inherent in our loan portfolio at the balance sheet date.

Three months ended March 31, 2022 compared to three months ended March 31, 2021

We recorded a $1.0 million provision for loan losses in the first quarter of 2022, compared to a $0.2 million provision for loan losses for the same period of 2021. The increase of $0.8 million for the provision period-over-period was primarily due to loan growth, bolstered by improvements in the economy, including improved economic conditions related to the impact of the COVID-19 pandemic during the first quarter of 2022 as compared to the first quarter of 2021. Additionally, the Company had a decrease in loans designated as watch and substandard from $60.5 million as of March 31, 2021 to $17.0 million as of March 31, 2022.

**Non-interest Income**

Non-interest income is a secondary contributor to our net income. Non-interest income consists primarily of net gain on sale of loans, net gain on sale of securities, FHLB dividends, loan-related fees, and other income.

Three months ended March 31, 2022 compared to three months ended March 31, 2021

The following table details the components of non-interest income for the periods indicated.

| | For the three months ended | | Amount | % |
|---|---|---|---|---|
| **(dollars in thousands)** | **March 31, 2022** | **March 31, 2021** | **Increase (Decrease)** | **Increase (Decrease)** |
| Service charges on deposit accounts | $ 108 | $ 90 | $ 18 | 20.00 % |
| Net gain on sale of securities | 5 | 182 | (177) | (97.25)% |
| Gain on sale of loans | 918 | 931 | (13) | (1.40)% |
| Loan-related fees | 617 | 260 | 357 | 137.31 % |
| FHLB stock dividends | 102 | 78 | 24 | 30.77 % |
| Earnings on bank-owned life insurance | 90 | 52 | 38 | 73.08 % |
| Other income | 345 | 23 | 322 | 1400.00 % |
| Total non-interest income | $ 2,185 | $ 1,616 | $ 569 | 35.21 % |

*Net gain on sale of securities.* The decrease in net gain on sale of securities was primarily due to the sale of one $1.5 million municipal security for a gain of $5.3 thousand during the three months ended March 31, 2022, compared to $11.5 million of municipal securities sold in the three months ended March 31, 2021 for a total gain recognized of $0.2 million.

*Loan-related fees*. The increase in loan-related fees primarily related to $0.3 million of swap referral fees recognized during the three months ended March 31, 2022, which did not occur in the three months ended March 31, 2021.

*Other income*. The increase in other income resulted primarily from a $0.3 million gain recorded on a distribution received on an investment in a venture-backed fund, which did not occur during the three months ended March 31, 2021.

**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 our efficiency ratio. The efficiency ratio 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, which has enabled us to reduce our non-interest expense in both absolute terms and 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 and infrastructure. Additionally, to support corporate organizational matters leading up to the IPO, we experienced increased audit, consulting, and legal costs. As a result, non-interest expense is increasing in the periods presented below; however, we do not anticipate incurring significant costs of this type in future periods, and we expect our efficiency ratio will improve going forward due, in part, to our past investment in infrastructure.

Three months ended March 31, 2022 compared to three months ended March 31, 2021

The following table details the components of non-interest expense for the periods indicated.

| | For the three months ended | | Amount | % |
|---|---|---|---|---|
| **(dollars in thousands)** | **March 31, 2022** | **March 31, 2021** | **Increase (Decrease)** | **Increase (Decrease)** |
| Salaries and employee benefits | $ 5,675 | $ 4,697 | $ 978 | 20.82 % |
| Occupancy and equipment | 520 | 451 | 69 | 15.30 % |
| Data processing and software | 716 | 629 | 87 | 13.83 % |
| FDIC insurance | 165 | 280 | (115) | (41.07)% |
| Professional services | 554 | 1,532 | (978) | (63.84)% |
| Advertising and promotional | 344 | 170 | 174 | 102.35 % |
| Loan-related expenses | 278 | 229 | 49 | 21.40 % |
| Other operating expenses | 1,323 | 816 | 507 | 62.13 % |
| Total non-interest expense | $ 9,575 | $ 8,804 | $ 771 | 8.76 % |

*Salaries and employee benefits.* The increase in salaries and employee benefits was primarily a result of a $1.1 million increase related to an 18.24% increase in headcount during the three months ended March 31, 2022, as compared to the three months ended March 31, 2021, combined with a $0.6 million increase in commissions from the three months ended March 31, 2021 to the three months ended March 31, 2022. These increases were partially offset by a $0.6 million increase in deferred loan origination costs from the three months ended March 31, 2021 to the three months ended March 31, 2022.

*FDIC insurance*. FDIC insurance decreased, primarily due to an improvement in the leverage ratio used in the FDIC assessment calculation as a result of the Company's IPO in May 2021.

*Professional services*. Professional services decreased, primarily as a result of expenses recognized during the three months ended March 31, 2021 related to the increased audit, consulting, and legal costs incurred to support corporate organizational matters leading up to the IPO, which did not recur during the three months ended March 31, 2022.

*Advertising and promotional*. The increase in advertising and promotional was primarily related to increases in business development, marketing, and sponsorship expenses due to more in-person participation at events held during the three months ended March 31, 2022, as compared to the three months ended March 31, 2021.

*Other operating expenses*. Other operating expenses increased, primarily due to $0.1 million of stock compensation expense recorded for restricted stock granted to members of the board of directors during the three months ended March 31, 2022, which did not occur during the three months ended March 31, 2021, combined with the net effect of individually immaterial items, including increases in expenses related to travel, insurance, dues and subscriptions, data, and telephone, which increased as a result of an increase in volume of customers and employees period-over-period.

**Provision for Income Taxes**

The Company terminated its status as a "Subchapter S" corporation effective May 5, 2021, in connection with the Company's IPO, and became a C Corporation. Prior to that date, as an S Corporation, the Company had no U.S. federal income tax expense. The provision recorded for the three months ended March 31, 2022 yielded an effective tax rate of 27.07%. Refer to the section entitled "—Pro Forma C Corporation Income Tax Expense" below for a discussion on what the Company's income tax expense and net income would have been had the Company been taxed as a C Corporation during the three months ended March 31, 2021.

Three months ended March 31, 2022 compared to three months ended March 31, 2021

The provision for income taxes for the quarter ended March 31, 2022 increased by $3.3 million to $3.7 million, as compared to $0.4 million during the quarter ended March 31, 2021. This increase is due to the change in the statutory tax rate from 3.50% for the quarter ended March 31, 2021 to 29.56%, as applied to estimated taxable income for the quarter ended March 31, 2022.

**Pro Forma C Corporation Income Tax Expense**

Because of the Company's status as a Subchapter S Corporation prior to May 5, 2021, no U.S. federal income tax expense was recorded for the entirety of the three months ended March 31, 2021. Had the Company been taxed as a C Corporation and paid U.S. federal income tax for that period, the combined statutory income tax rate would have been 29.56%. For the three months ended March 31, 2021, the pro forma statutory rate reflects a U.S. federal income tax rate of 21.00% and a California state income tax rate of 8.56%, after adjustment for the federal tax benefit, on corporate taxable income. Had the Company been subject to U.S. federal income tax for this period, on a statutory income tax rate pro forma basis, the provision for combined federal and state income tax would have been $3.2 million for the three months ended March 31, 2021. As a result of the foregoing factors, the Company's pro forma net income (after U.S. federal and California state income tax) would have been $7.5 million for the three months ended March 31, 2021.

**FINANCIAL CONDITION SUMMARY**

The following discussion compares our financial condition as of March 31, 2022 to our financial condition as of December 31, 2021. The following table summarizes selected components of our balance sheet as of March 31, 2022 and December 31, 2021.

| (dollars in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Total assets | $ 2,778,249 | $ 2,556,761 |
| Cash and cash equivalents | $ 504,964 | $ 425,329 |
| Total investments | $ 139,299 | $ 153,753 |
| Loans held for investment | $ 2,080,158 | $ 1,934,460 |
| Total deposits | $ 2,503,092 | $ 2,285,890 |
| Subordinated notes, net | $ 28,403 | $ 28,386 |
| Total shareholders' equity | $ 231,061 | $ 235,046 |

**Total Assets**

At March 31, 2022, total assets were $2.8 billion, an increase of $221.5 million from $2.6 billion at December 31, 2021, primarily due to increases in cash and cash equivalents and loans held for investment, as discussed below.

**Cash and Cash Equivalents**

Total cash and cash equivalents were $505.0 million at March 31, 2022, an increase of $79.6 million, as compared to $425.3 million at December 31, 2021. The increase in cash and cash equivalents was primarily a result of net income recognized of $9.9 million, proceeds from sale of loans of $11.7 million, and an increase in deposits of $217.2 million. These increases were partially offset by loans originated for sale of $21.2 million, loan originations and advances, net of principal collected, of $135.0 million, and cash distributions of $7.5 million during the three months ended March 31, 2022.

**Investment Portfolio**

Our investment portfolio is primarily comprised of guaranteed 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 held-to-maturity and available-for-sale amounted to $139.3 million at March 31, 2022 and $153.8 million at December 31, 2021, representing a decrease of $14.5 million. The decrease was primarily due to an unrealized loss (tax effected) on securities of $7.2 million, of which $4.4 million and $2.6 million related to our mortgage-backed and municipal securities portfolios, respectively. This unrealized loss was recognized as a result of interest rate hikes that occurred during the quarter.

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

| | As of | | | |
|---|---|---|---|---|
| | March 31, 2022 | | December 31, 2021 | |
| **(dollars in thousands)** | **Carrying Value** | **% of Total** | **Carrying Value** | **% of Total** |
| Available-for-sale (at fair value): | | | | |
| U.S. government agencies | $ 18,079 | 12.98 % | $ 19,682 | 12.80 % |
| Mortgage-backed securities | 73,492 | 52.76 % | 81,513 | 53.02 % |
| Obligations of states and political subdivisions | 40,931 | 29.38 % | 45,137 | 29.36 % |
| Collateralized mortgage obligations | 483 | 0.35 % | 540 | 0.35 % |
| Corporate bonds | 1,828 | 1.31 % | 1,935 | 1.26 % |
| Total available-for-sale | 134,813 | 96.78 % | 148,807 | 96.79 % |
| | | | | |
| Held-to-maturity (at amortized cost): | | | | |
| Obligations of states and political subdivisions | 4,486 | 3.22 % | 4,946 | 3.21 % |
| | $ 139,299 | 100.00 % | $ 153,753 | 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, 2022:

| | 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** |
| Available-for-sale: | | | | | | | | | | |
| U.S. government agencies | $ — | — % | $ 1,154 | 1.92 % | $ 3,489 | 1.01 % | $ 13,436 | 0.45 % | $ 18,079 | 0.65 % |
| Mortgage-backed securities | — | — % | — | — % | 3 | 6.91 % | 73,489 | 1.63 % | 73,492 | 1.63 % |
| Obligations of states and political subdivisions | — | — % | 514 | 2.80 % | 3,458 | 1.58 % | 36,959 | 1.70 % | 40,931 | 1.70 % |
| Collateralized mortgage obligations | — | — % | — | — % | — | — % | 483 | 1.75 % | 483 | 1.75 % |
| Corporate bonds | — | — % | 1,828 | 1.25 % | — | — % | — | — % | 1,828 | 1.25 % |
| Total available-for-sale | — | — % | 3,496 | 1.70 % | 6,950 | 1.29 % | 124,367 | 1.53 % | 134,813 | 1.52 % |
| | | | | | | | | | | |
| Held-to-maturity: | | | | | | | | | | |
| Obligations of states and political subdivisions | 456 | 6.00 % | 1,115 | 6.00 % | 1,590 | 6.00 % | 1,325 | 6.00 % | 4,486 | 6.00 % |
| Total | $ 456 | 6.00 % | $ 4,611 | 2.74 % | $ 8,540 | 2.17 % | $ 125,692 | 1.57 % | $ 139,299 | 1.66 % |

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, 2021:

| | 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** | **Carrying Value** | **Weighted Avg Yield** |
| Available-for-sale: | | | | | | | | | | |
| U.S. government agencies | $ — | — % | $ 1,591 | 1.97 % | $ 3,814 | 0.69 % | $ 14,277 | 0.19 % | $ 19,682 | 0.43 % |
| Mortgage-backed securities | — | — % | — | — % | 3 | 6.90 % | 81,510 | 1.51 % | 81,513 | 1.51 % |
| Obligations of states and political subdivisions | — | — % | 522 | 2.80 % | 3,748 | 1.56 % | 40,867 | 1.69 % | 45,137 | 1.69 % |
| Collateralized mortgage obligations | — | — % | — | — % | — | — % | 540 | 1.73 % | 540 | 1.73 % |
| Corporate bonds | — | — % | 1,935 | 1.25 % | — | — % | — | — % | 1,935 | 1.25 % |
| Total available-for-sale | — | — % | 4,048 | 1.73 % | 7,565 | 1.12 % | 137,194 | 1.43 % | 148,807 | 1.42 % |
| | | | | | | | | | | |
| Held-to-maturity: | | | | | | | | | | |
| Obligations of states and political subdivisions | 491 | 6.00 % | 951 | 6.00 % | 3,504 | 6.00 % | — | — % | 4,946 | 6.00 % |
| Total | $ 491 | 6.00 % | $ 4,999 | 2.54 % | $ 11,069 | 2.67 % | $ 137,194 | 1.43 % | $ 153,753 | 1.57 % |

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 and is a yield to worst for callable municipal securities and corporate bonds. Weighted average yield for securities held-to-maturity is the stated coupon of the bond.

A summary of the amortized cost and fair value related to securities as of March 31, 2022 and December 31, 2021 is presented below.

| | | Gross Unrealized | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Amortized Cost** | **Gains** | **(Losses)** | **Fair Value** |
| **March 31, 2022** | | | | |
| Available-for-sale: | | | | |
| U.S. government agencies | $ 18,241 | $ 95 | $ (257) | $ 18,079 |
| Mortgage-backed securities | 79,694 | 8 | (6,210) | 73,492 |
| Obligations of states and political subdivisions | 44,621 | 23 | (3,713) | 40,931 |
| Collateralized mortgage obligations | 504 | — | (21) | 483 |
| Corporate bonds | 2,000 | — | (172) | 1,828 |
| Total available-for-sale | $ 145,060 | $ 126 | $ (10,373) | $ 134,813 |
| Held-to-maturity: | | | | |
| Obligations of states and political subdivisions | $ 4,486 | $ — | $ (27) | $ 4,459 |
| | | | | |
| **December 31, 2021** | | | | |
| Available-for-sale: | | | | |
| U.S. government agencies | $ 19,824 | $ 60 | $ (202) | $ 19,682 |
| Mortgage-backed securities | 82,517 | 94 | (1,098) | 81,513 |
| Obligations of states and political subdivisions | 44,732 | 525 | (120) | 45,137 |
| Collateralized mortgage obligations | 537 | 3 | — | 540 |
| Corporate bonds | 2,000 | — | (65) | 1,935 |
| Total available-for-sale | $ 149,610 | $ 682 | $ (1,485) | $ 148,807 |
| Held-to-maturity: | | | | |
| Obligations of states and political subdivisions | $ 4,946 | $ 251 | $ — | $ 5,197 |

The unrealized losses on securities are attributable to interest rate changes, rather than the marketability of the securities or the issuer's ability to honor redemption of the obligations, as the securities with losses are all obligations of or guaranteed by agencies sponsored by the U.S. government. We have adequate liquidity and the ability and intent to hold these securities to maturity, resulting in full recovery of the indicated impairment. Accordingly, none of the unrealized losses on these securities have been determined to be other than temporary.

**Loan Portfolio**

Our loan portfolio is our 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 we attempt to mitigate with strong underwriting. As of March 31, 2022 and December 31, 2021, our total loans amounted to $2.1 billion and $1.9 billion, respectively. The following table presents the balance and associated percentage of each major product type within our portfolio as of the dates indicated.

| | As of | | | |
|---|---|---|---|---|
| | March 31, 2022 | | December 31, 2021 | |
| (dollars in thousands) | Amount | % of Loans | Amount | % of Loans |
| Loans held for investment: | | | | |
| Real estate: | | | | |
| Commercial | $ 1,760,551 | 84.18 % | $ 1,586,232 | 81.48 % |
| Commercial land and development | 9,090 | 0.43 % | 7,376 | 0.38 % |
| Commercial construction | 59,293 | 2.83 % | 54,214 | 2.78 % |
| Residential construction | 5,540 | 0.26 % | 7,388 | 0.38 % |
| Residential | 28,921 | 1.38 % | 28,562 | 1.47 % |
| Farmland | 49,903 | 2.39 % | 54,805 | 2.82 % |
| Commercial: | | | | |
| Secured | 124,930 | 5.97 % | 137,062 | 7.03 % |
| Unsecured | 22,599 | 1.08 % | 21,136 | 1.09 % |
| PPP | 1,528 | 0.07 % | 22,124 | 1.14 % |
| Consumer and other | 19,044 | 0.91 % | 17,167 | 0.88 % |
| Loans held for investment, gross | 2,081,399 | 99.50 % | 1,936,066 | 99.45 % |
| | | | | |
| Loans held for sale: | | | | |
| Commercial | 10,386 | 0.50 % | 10,671 | 0.55 % |
| Total loans, gross | 2,091,785 | 100.00 % | 1,946,737 | 100.00 % |
| Net deferred loan fees | (1,241) | | (1,606) | |
| Total loans | $ 2,090,544 | | $ 1,945,131 | |

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. 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 owners.

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 by collateral type, estimated real estate collateral values, and related loan-to-value ("LTV") ranges as of the dates indicated. Collateral values and LTVs included in the table below reflect real estate collateral and do not include personal property collateral. 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.

| (dollars in thousands) | Loan Balance | % of Commercial Real Estate | Collateral Value | Minimum LTV | Maximum LTV |
|---|---|---|---|---|---|
| **March 31, 2022** | | | | | |
| Manufactured home community | $ 598,014 | 33.97 % | $ 986,229 | 14.16 % | 82.73 % |
| Retail | 192,575 | 10.94 % | 353,059 | 16.75 % | 75.00 % |
| Multifamily | 167,103 | 9.49 % | 356,971 | 11.88 % | 76.49 % |
| Industrial | 145,598 | 8.27 % | 336,803 | 10.96 % | 89.41 % |
| Office | 141,318 | 8.03 % | 310,162 | 1.05 % | 81.55 % |
| Faith-based | 130,036 | 7.39 % | 340,498 | 3.71 % | 83.19 % |
| Mini storage | 95,172 | 5.41 % | 175,615 | 20.63 % | 69.72 % |
| All other types[1] | 290,735 | 16.50 % | 627,368 | 0.75 % | 107.83 % |
| Total | $ 1,760,551 | 100.00 % | $ 3,486,705 | 0.75 % | 107.83 % |
| | | | | | |
| **December 31, 2021** | | | | | |
| Manufactured home community | $ 518,910 | 32.71 % | $ 849,269 | 14.22 % | 78.00 % |
| Retail | 166,960 | 10.53 % | 307,376 | 5.10 % | 75.00 % |
| Multifamily | 152,412 | 9.61 % | 350,953 | 5.13 % | 75.00 % |
| Industrial | 135,401 | 8.54 % | 318,875 | 1.43 % | 74.51 % |
| Office | 134,728 | 8.49 % | 294,367 | 1.67 % | 75.00 % |
| Faith-based | 108,718 | 6.85 % | 272,383 | 4.59 % | 80.14 % |
| Mini storage | 85,712 | 5.40 % | 159,810 | 20.76 % | 69.05 % |
| Mixed use | 83,270 | 5.25 % | 155,961 | 1.04 % | 71.98 % |
| All other types[1] | 200,121 | 12.62 % | 473,952 | 8.00 % | 94.97 % |
| Total | $ 1,586,232 | 100.00 % | $ 3,182,946 | 1.04 % | 94.97 % |

1 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.

The weighted average loan-to-value of impaired, collateral dependent loans was approximately 133.38% at March 31, 2022 and 70.67% at December 31, 2021.

Over the past few years, we have experienced significant growth in our loan portfolio, although the relative composition of the portfolio has not changed significantly (when PPP loans are excluded). Our primary focus remains commercial real estate lending (including commercial, commercial land and development, and commercial construction), which constitutes 87.91% of loans held for investment at March 31, 2022. Commercial secured lending (consisting primarily of SBA 7(a) loans under $350,000) represents 6.01% of loans held for investment at March 31, 2022. We sell the guaranteed portion of all SBA 7(a) loans, excluding PPP 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 634.02% and 577.92% as of March 31, 2022 and December 31, 2021, 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, 2022. 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, 2022:

| (dollars in thousands) | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 15 years | Due after 15 years | Total |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial | $ 24,776 | $ 227,918 | $ 1,464,938 | $ 42,919 | $ 1,760,551 |
| Commercial land and development | 1,204 | 5,732 | 2,154 | — | 9,090 |
| Commercial construction | 3,725 | 21,155 | 34,413 | — | 59,293 |
| Residential construction | 2,784 | 2,364 | 392 | — | 5,540 |
| Residential | 1,170 | 6,613 | 20,109 | 1,029 | 28,921 |
| Farmland | 1,017 | 6,986 | 41,900 | — | 49,903 |
| Commercial: | | | | | |
| Secured | 20,749 | 27,208 | 83,418 | 3,941 | 135,316 |
| Unsecured | 1,475 | 4,372 | 16,752 | — | 22,599 |
| PPP | 598 | 930 | — | — | 1,528 |
| Consumer and other | 41 | 6,238 | 12,754 | 11 | 19,044 |
| Total | $ 57,539 | $ 309,516 | $ 1,676,830 | $ 47,900 | $ 2,091,785 |

The following table sets forth the contractual maturities of our loan portfolio as of December 31, 2021:

| (dollars in thousands) | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 15 years | Due after 15 years | Total |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial | $ 32,107 | $ 170,222 | $ 1,343,367 | $ 40,536 | $ 1,586,232 |
| Commercial land and development | 1,209 | 6,167 | — | — | 7,376 |
| Commercial construction | 3,418 | 17,575 | 32,131 | 1,090 | 54,214 |
| Residential construction | 5,609 | 1,779 | — | — | 7,388 |
| Residential | 1,183 | 8,246 | 17,871 | 1,262 | 28,562 |
| Farmland | 3,876 | 8,116 | 42,813 | — | 54,805 |
| Commercial: | | | | | |
| Secured | 31,436 | 29,880 | 82,526 | 3,891 | 147,733 |
| Unsecured | 1,182 | 3,976 | 15,978 | — | 21,136 |
| PPP | 598 | 21,526 | — | — | 22,124 |
| Consumer and other | 35 | 3,619 | 13,513 | — | 17,167 |
| Total | $ 80,653 | $ 271,106 | $ 1,548,199 | $ 46,779 | $ 1,946,737 |

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

| (dollars in thousands) | Fixed Interest Rates | Floating or Adjustable Rates | Total |
|---|---|---|---|
| Real estate: | | | |
| Commercial | $ 473,725 | $ 1,286,826 | $ 1,760,551 |
| Commercial land and development | 1,543 | 7,547 | 9,090 |
| Commercial construction | — | 59,293 | 59,293 |
| Residential construction | — | 5,540 | 5,540 |
| Residential | 2,181 | 26,740 | 28,921 |
| Farmland | 4,062 | 45,841 | 49,903 |
| Commercial: | | | |
| Secured | 34,216 | 101,100 | 135,316 |
| Unsecured | 20,625 | 1,974 | 22,599 |
| PPP | 1,528 | — | 1,528 |
| Consumer and other | 19,044 | — | 19,044 |
| Total | $ 556,924 | $ 1,534,861 | $ 2,091,785 |

The following table sets forth the sensitivity to interest rate changes of our loan portfolio as of December 31, 2021:

| (dollars in thousands) | Fixed Interest Rates | Floating or Adjustable Rates | Total |
|---|---|---|---|
| Real estate: | | | |
| Commercial | $ 394,648 | $ 1,191,584 | $ 1,586,232 |
| Commercial land and development | 722 | 6,654 | 7,376 |
| Commercial construction | — | 54,214 | 54,214 |
| Residential construction | — | 7,388 | 7,388 |
| Residential | 2,222 | 26,340 | 28,562 |
| Farmland | 4,183 | 50,622 | 54,805 |
| Commercial: | | | |
| Secured | 34,771 | 112,962 | 147,733 |
| Unsecured | 19,841 | 1,295 | 21,136 |
| PPP | 22,124 | — | 22,124 |
| Consumer and other | 17,167 | — | 17,167 |
| Total | $ 495,678 | $ 1,451,059 | $ 1,946,737 |

**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 loan 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 assessing the adequacy of our allowance for loan 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.

*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.

*Troubled Debt Restructurings*

We consider a loan to be a TDR when we have granted a concession and the borrower is experiencing financial difficulty. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under our internal underwriting policy. A TDR loan generally is kept on non-accrual status until, among other criteria, the borrower has paid for six consecutive months with no payment defaults, at which time the TDR may be placed back on accrual status.

*COVID-19 Deferments*

The CARES Act, as amended by the Consolidated Appropriations Act, specified that COVID-19 related loan modifications executed between March 1, 2020 and the earlier of: (i) 60 days after the date of termination of the national emergency declared by the President; and (ii) January 1, 2022, on loans that were current as of December 31, 2019 are not TDRs. Additionally, under guidance from the federal banking agencies, other short-term modifications made on a good faith basis in response to COVID-19 to borrowers that were current prior to any relief are not TDRs under ASC Subtopic 310-40, "Troubled Debt Restructuring by Creditors." These modifications include short-term modifications (e.g., up to six months) such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. We elected to apply these temporary accounting provisions to loans under payment relief beginning in March 2020. As of March 31, 2022, six borrowing relationships with six loans totaling $12.2 million, or 0.59% of loans held for investment, were in a COVID-19 deferment period, and one loan totaling $0.1 million had been in a COVID-19 deferment period in the fourth quarter of 2021 but was not in such deferment as of March 31, 2022. Two of the loans that received COVID-19 deferments in the first quarter of 2022 had the principal portion deferred to the respective maturity of the loan. We accrue and recognize interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid.

*SBA 7(a) Payments Made Under the CARES Act*

Section 1112 of the CARES Act required the SBA to make payments on new and existing 7(a) loans for up to six months. The Consolidated Appropriations Act amended this section of the CARES Act to extend the payment on 7(a) loans in existence on March 27, 2020, beginning on February 1, 2021 for up to eight or eleven months, depending on the borrower's industry code, and to require the SBA to make up to three months of payments on new 7(a) loans approved between February 1, 2021 and September 30, 2021. These payments are not deferments but rather full payments of principal and interest that the borrower will not be responsible for in the future. In the first three months of 2022, the SBA made payments under this program on 25 of our SBA 7(a) loans, totaling $0.1 million in principal and interest. As of March 31, 2022, the principal outstanding on loans that received one or more of these payments under the CARES Act was $2.6 million.

*SBA Loans*

During the first quarter of 2022, the Company sold 50 SBA 7(a) loans with government guaranteed portions totaling $11.7 million. Of the loans sold during the quarter, the Company received gross proceeds of $12.6 million resulting in a net gain on sale of $0.9 million. The Company did not sell any PPP loans in the first quarter of 2022.

*Non-accrual Loans*

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

| | As of | |
|---|---|---|
| **(dollars in thousands)** | **March 31, 2022** | **December 31, 2021** |
| Non-accrual loans: | | |
| Real estate: | | |
| Commercial | $ 118 | $ 122 |
| Residential | 177 | 178 |
| Secured | 1,033 | 288 |
| Total non-accrual loans | 1,328 | 588 |
| | | |
| Loans past due 90 days or more and still accruing: | | |
| Total loans past due and still accruing | — | — |
| Total nonperforming loans | 1,328 | 588 |
| | | |
| Real estate owned | — | — |
| Total nonperforming assets | $ 1,328 | $ 588 |
| COVID-19 deferments | $ 12,202 | $ 12,156 |
| | | |
| Performing TDRs (not included above) | $ — | $ — |
| | | |
| Allowance for loan losses to period end nonperforming loans | 1,799.99 % | 3,954.30 % |
| Nonperforming loans to loans held for investment[1] | 0.06 % | 0.03 % |
| Nonperforming assets to total assets | 0.05 % | 0.02 % |
| Nonperforming loans plus performing TDRs to loans held for investment[1] | 0.06 % | 0.03 % |
| COVID-19 deferments to loans held for investment[1] | 0.59 % | 0.63 % |

[1] Loans held for investment are equivalent to total loans outstanding at period end.

The ratio of nonperforming loans to loans held for investment increased from 0.03% as of December 31, 2021 to 0.06% as of March 31, 2022, primarily due to an increase in commercial secured nonperforming loans.

The ratio of the allowance for loan losses to nonperforming loans decreased from 3,954.30% as of December 31, 2021 to 1,799.99% as of March 31, 2022. The decrease was primarily due to a relatively flat allowance for loan losses from December 31, 2021 to March 31, 2022, while commercial secured non-accrual loans increased by $0.7 million from December 31, 2021 to March 31, 2022.

*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 loan 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:

| (dollars in thousands) | Pass | Watch | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **March 31, 2022** | | | | | |
| Real estate: | | | | | |
| Commercial | $ 1,751,563 | $ 8,087 | $ 901 | $ — | $ 1,760,551 |
| Commercial land and development | 9,090 | — | — | — | 9,090 |
| Commercial construction | 53,393 | 5,900 | — | — | 59,293 |
| Residential construction | 5,540 | — | — | — | 5,540 |
| Residential | 28,744 | — | 177 | — | 28,921 |
| Farmland | 49,903 | — | — | — | 49,903 |
| Commercial: | | | | | |
| Secured | 122,996 | 14 | 1,920 | — | 124,930 |
| Unsecured | 22,599 | — | — | — | 22,599 |
| PPP | 1,528 | — | — | — | 1,528 |
| Consumer | 19,032 | — | 12 | — | 19,044 |
| Total | $ 2,064,388 | $ 14,001 | $ 3,010 | $ — | $ 2,081,399 |
| | | | | | |
| **December 31, 2021** | | | | | |
| Real estate: | | | | | |
| Commercial | $ 1,575,006 | $ 1,970 | $ 9,256 | $ — | $ 1,586,232 |
| Commercial land and development | 7,376 | — | — | — | 7,376 |
| Commercial construction | 48,288 | 5,926 | — | — | 54,214 |
| Residential construction | 7,388 | — | — | — | 7,388 |
| Residential | 28,384 | — | 178 | — | 28,562 |
| Farmland | 54,805 | — | — | — | 54,805 |
| Commercial: | | | | | |
| Secured | 135,131 | 751 | 1,180 | — | 137,062 |
| Unsecured | 21,136 | — | — | — | 21,136 |
| PPP | 22,124 | — | — | — | 22,124 |
| Consumer | 17,167 | — | — | — | 17,167 |
| Total | $ 1,916,805 | $ 8,647 | $ 10,614 | $ — | $ 1,936,066 |

Loans designated as watch and substandard, which are not considered adversely classified, decreased to $17.0 million at March 31, 2022 from $19.3 million at December 31, 2021, which resulted in a decrease in the reserve overall. There were no loans with doubtful risk grades at March 31, 2022 or December 31, 2021.

*Allowance for Loan Losses*

The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan 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 loan losses.

The allowance for loan 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.

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

At March 31, 2022, the Company's allowance for loan losses was $23.9 million, as compared to $23.2 million at December 31, 2021. The $0.7 million increase is due to a $1.0 million provision for loan losses recorded during the quarter ended March 31, 2022, offset by net charge-offs of $0.3 million during the quarter.

The following table is a summary of the allowance for loan losses by loan class as of the periods indicated:

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Dollars** | **% of Total** | **Dollars** | **% of Total** |
| Collectively evaluated for impairment: | | | | |
| Real estate: | | | | |
| Commercial | $ 13,868 | 58.01 % | $ 12,869 | 55.37 % |
| Commercial land and development | 66 | 0.28 % | 50 | 0.22 % |
| Commercial construction | 430 | 1.80 % | 371 | 1.60 % |
| Residential construction | 40 | 0.17 % | 50 | 0.22 % |
| Residential | 208 | 0.87 % | 192 | 0.83 % |
| Farmland | 611 | 2.56 % | 645 | 2.78 % |
| Commercial: | | | | |
| Secured | 6,400 | 26.77 % | 6,687 | 28.77 % |
| Unsecured | 246 | 1.03 % | 207 | 0.89 % |
| PPP | — | — % | — | — % |
| Consumer and other | 1,088 | 4.55 % | 889 | 3.82 % |
| Unallocated | 308 | 1.29 % | 1,111 | 4.78 % |
| | 23,265 | 97.33 % | 23,071 | 99.28 % |
| Individually evaluated for impairment | 639 | 2.67 % | 172 | 0.72 % |
| Total allowance for loan losses | $ 23,904 | 100.00 % | $ 23,243 | 100.00 % |

The ratio of allowance for loan losses to total loans held for investment was 1.15% at March 31, 2022, compared to 1.20% at December 31, 2021. Excluding SBA-guaranteed PPP loans, the ratio of the allowance for loan losses to total loans held for investment was 1.15% and 1.22% at March 31, 2022 and December 31, 2021, respectively. 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. Non-accrual loans totaled $1.3 million, or 0.06% of total loans held for investment, at March 31, 2022, increasing from $0.6 million, or 0.03% of total loans held for investment, at December 31, 2021.

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

| | As of and for the three months ended | | | |
|---|---|---|---|---|
| | March 31, 2022 | | March 31, 2021 | |
| (dollars in thousands) | Activity | % of Average Loans Held for Investment | Activity | % of Average Loans Held for Investment |
| Average loans held for investment | $ 1,970,311 | | $ 1,523,754 | |
| Allowance for loan losses (beginning of period) | $ 23,243 | | $ 22,189 | |
| Net (charge-offs) recoveries: | | | | |
| Real estate: | | | | |
| Commercial | — | — % | — | — % |
| Commercial land and development | — | — % | — | — % |
| Commercial construction | — | — % | — | — % |
| Residential construction | — | — % | — | — % |
| Residential | — | — % | — | — % |
| Farmland | — | — % | — | — % |
| Commercial: | | | | |
| Secured | (263) | (0.01)% | (168) | (0.01)% |
| Unsecured | — | — % | — | — % |
| PPP | — | — % | — | — % |
| Consumer and other | (26) | — % | 50 | — % |
| Net charge-offs | (289) | (0.01)% | (118) | (0.01)% |
| Provision for loan losses | 950 | | 200 | |
| Allowance for loan losses (end of period) | $ 23,904 | | $ 22,271 | |
| Loans held for investment | $ 2,080,158 | | $ 1,543,493 | |
| Allowance for loan losses to loans held for investment | 1.15 % | | 1.44 % | |

The allowance for loan losses to loans held for investment decreased from 1.44% as of March 31, 2021 to 1.15% as of March 31, 2022. The decrease was primarily due to (i) loan growth; (ii) improvements in the economy, including improved economic conditions related to the impact of the COVID-19 pandemic during the first quarter of 2022 as compared to the first quarter of 2021; and (iii) a decrease in loans designated as watch and substandard from $60.5 million as of March 31, 2021 to $17.0 million as of March 31, 2022.

Net charge-offs as a percent of average loans held for investment remained stable at 0.01% for the three months ended March 31, 2021 and March 31, 2022. The net charge-off rate related to the commercial secured portfolio remained stable at 0.01% for the three months ended March 31, 2021 and March 31, 2022. The net recovery related to the consumer portfolio for the three months ended March 31, 2021 reversed to a charge-off for the three months ended March 31, 2022, but both were insignificant as a percent of average loans held for investment during the periods indicated.

**Liabilities**

During the first three months of 2022, total liabilities increased by $225.5 million from $2.3 billion as of December 31, 2021 to $2.5 billion as of March 31, 2022. This increase was primarily due to an increase in total deposits of $217.2 million, comprised of increases of $39.2 million in non-interest-bearing deposits and $178.0 million in interest-bearing deposits.

**Deposits**

Representing 98.27% of our total liabilities as of March 31, 2022, deposits are our primary source of funding for our business operations.

Total deposits increased by $217.2 million, or 9.50%, to $2.5 billion at March 31, 2022 from $2.3 billion as of December 31, 2021. Deposit increases were primarily attributed to an increase in the number of new relationships, as well as normal fluctuations in some of our large accounts. Non-interest-bearing deposits increased by $39.2 million in the first three months of 2022 to $941.3 million and represented 37.60% of total deposits at March 31, 2022, compared to 39.46% of total deposits at December 31, 2021. Our loan to deposit ratio was 83.52% at March 31, 2022, as compared to 85.09% at December 31, 2021. We intend to continue to operate our business with a loan to deposit ratio similar to these levels.

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

| | For the three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2022 | | | March 31, 2021 | | |
| (dollars in thousands) | Average Amount | Average Rate Paid | % of Interest-bearing Deposits | Average Amount | Average Rate Paid | % of Interest-bearing Deposits |
| Interest checking | $ 276,690 | 0.10 % | 19.53 % | $ 154,678 | 0.10 % | 13.70 % |
| Money market and savings | 1,011,582 | 0.16 % | 71.42 % | 928,259 | 0.26 % | 82.21 % |
| Time | 128,183 | 0.26 % | 9.05 % | 46,171 | 0.56 % | 4.09 % |
| Total interest-bearing deposits | $ 1,416,455 | 0.16 % | 100.00 % | $ 1,129,108 | 0.25 % | 100.00 % |

Uninsured deposits totaled $1.5 billion and $1.3 billion at March 31, 2022 and December 31, 2021, respectively.

As of March 31, 2022, our 18 largest deposit relationships, each accounting for more than $10.0 million, totaled $876.9 million, or 35.03% of our total deposits. As of December 31, 2021, our 26 largest deposit relationships, each accounting for more than $10.0 million, totaled $912.7 million, or 39.93% 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:

| (dollars in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Municipalities | $ 447,585 | $ 424,483 |
| Non-profits | 219,341 | 181,080 |
| Businesses | 210,004 | 307,132 |
| Total | $ 876,930 | $ 912,695 |

Our largest single deposit relationship relates to a non-profit association that supports hospitals and health systems. The balances for this customer were $182.4 million, or 7.29% of total deposits, at March 31, 2022 and $155.0 million, or 6.78% of total deposits, at December 31, 2021.

The following tables set forth the maturity of time deposits as of March 31, 2022:

| (dollars in thousands) | $250,000 or Greater | Less than $250,000 | Total | Uninsured Portion |
|---|---|---|---|---|
| Remaining maturity: | | | | |
| Three months or less | $ 76,698 | $ 21,543 | $ 98,241 | $ 74,698 |
| Over three through six months | 75,000 | 1,392 | 76,392 | 74,750 |
| Over six through twelve months | 741 | 2,622 | 3,363 | 241 |
| Over twelve months | 438 | 600 | 1,038 | 188 |
| Total | $ 152,877 | $ 26,157 | $ 179,034 | $ 149,877 |

**FHLB Advances and Other Borrowings**

From time to time, we utilize short-term collateralized FHLB borrowings to maintain adequate liquidity. There were no borrowings outstanding as of March 31, 2022 and December 31, 2021.

In 2017 and 2019, we issued subordinated notes of $25.0 million and $3.8 million, respectively. This debt was issued to investors in private placement transactions. See Note 8, 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, 2022:

| (dollars in thousands) | Issuance Date | Amount of Notes | Prepayment Right | Maturity Date |
|---|---|---|---|---|
| Subordinated notes | September 2017 | $ 25,000 | September 28, 2022 | September 15, 2027 |
| Fixed at 6.00% through September 15, 2022, then three-month London Inter-bank Offered Rate ("LIBOR") plus 404.4 basis points (4.88% as of March 31, 2022) through maturity | | | | |
| Subordinated notes | November 2019 | $ 3,750 | September 30, 2022 | September 15, 2027 |
| Fixed at 5.50% through September 15, 2022, then three-month LIBOR plus 354.4 basis points (4.38% as of March 31, 2022) through maturity | | | | |

**Shareholders' Equity**

Shareholders' equity totaled $231.1 million at March 31, 2022 and $235.0 million at December 31, 2021. The decrease in shareholders' equity was primarily attributable to net income recognized of $9.9 million, offset by a net decline of $6.7 million in other comprehensive income and $7.5 million in cash distributions paid during the three months ended March 31, 2022.

**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 the liquidity of the Bank 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 credit, market, 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 sale of loans. Less commonly used sources of funding include borrowings from the Federal Reserve Bank of San Francisco 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.

*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 gathering of deposits, and our principal uses of cash include funding of loans, operating expenses, income taxes, and dividend payments, as described below. In 2021, we also had significant cash inflows as a result of our IPO. As of March 31, 2022, management believes the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs.

IPO

On May 7, 2021, we completed our IPO at a price of $20.00 per share. We raised approximately $111.2 million in net proceeds after deducting underwriting discounts and commissions of approximately $8.5 million and certain estimated offering expenses payable by us of approximately of $1.3 million. The net proceeds less $2.1 million in other related expenses, including audit fees, legal fees, listing fees, and other expenses totaled $109.1 million.

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, 2022, we had cash outflows of $135.0 million in loan originations and advances, net of principal collected, and $21.2 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, 2022, total off-balance sheet commitments totaled $249.4 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 made up of primarily non-interest checking and money market 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, 2022, we had significant cash inflows related to an increase in deposits of $217.2 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 $178.0 million of time deposits are expected to mature. As these time deposits mature, some of these deposits may not renew due to the competition in the Bank’s marketplace. 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.

Investment Securities

Our investment securities, excluding held-to-maturity securities, totaled $134.8 million at March 31, 2022. At March 31, 2022, 52.76% and 29.38% of our investment portfolio consisted of mortgage-backed securities and obligations of states and political subdivisions, 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 $14.4 million from our securities during 2022. 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 quarter ended March 31, 2022, we had cash proceeds from sales, maturities, and/or prepayments of securities of $6.4 million, offset by cash outflows of $1.6 million related to investment securities purchased. Additionally, at March 31, 2022, securities available-for-sale totaled $134.8 million, of which $57.4 million have been pledged as collateral for borrowings and other commitments.

Future Contractual Obligations

Our estimated future obligations as of March 31, 2022 include both current and long-term obligations. Under our operating leases as discussed in Note 7, Leases, in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, we have a current obligation of $0.8 million and a long-term obligation of $4.5 million. We also have a current obligation of $178.0 million and a long-term obligation of $1.0 million related to time deposits, as discussed in Note 6, Interest-Bearing Deposits, in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. We have subordinated notes of $28.4 million, all of which are long-term obligations. Finally, we have one significant, long-term contract for core processing services. While the actual obligation is unknown and dependent on certain factors, including volume and activities, we estimate that our current obligation under this contract is $1.2 million and our long-term obligation is $0.2 million, which is estimated using 2021 average monthly expense extrapolated over the remaining life of the contract.

FHLB Financing

Further, 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, 2022, the Bank had a total financing availability of $360.4 million, net of letters of credit issued of $495.5 million.

Dividends

A use of liquidity for the Company is shareholder dividends. The Company paid dividends to its shareholders totaling $7.5 million during the quarter, including a cash distribution in the amount of $4.9 million paid on March 17, 2022 to shareholders of record as of May 3, 2021, for the Company's final accumulated adjustments account payout, which is described in further detail in the Company’s Proxy Statement filed with the SEC and mailed to shareholders on April 6, 2022.

We expect to continue our current practice of paying quarterly cash dividends in 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 2022 at a rate of $0.15 per share, which is the rate of each of our last four quarterly dividend payments, our average total dividend paid each quarter would be approximately $2.6 million based on the number of current outstanding shares, which assumes no increases or decreases in the number of shares, and considering 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:

| | **Three months ended March 31,** | | **Amount** |
|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | **Increase (Decrease)** |
| Net cash provided by operating activities | $ 3,486 | $ 8,601 | $ (5,115) |
| Net cash used in investing activities | (133,513) | (52,608) | (80,905) |
| Net cash provided by financing activities | 209,662 | 188,106 | 21,556 |

Operating Activities

Net cash provided by operating activities decreased by $5.1 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, primarily due to an increase in loans originated for sale, offset by an increase in proceeds from sale of loans. Various other, less material items made up the remainder of the change. 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 increased by $80.9 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, primarily due to an increase in loan originations, net of repayments, partially offset by a decrease in proceeds from the sale of securities available-for-sale and a decrease in purchases of securities available-for-sale.

Financing Activities

Net cash provided by financing activities increased by $21.6 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, primarily due to growth in deposit account balances, partially offset by a decrease in cash dividends paid.

**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 loan 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. As a bank holding company with less than $3.0 billion in total consolidated assets and that meets certain other criteria, we currently operate under the Small Bank Holding Company Policy Statement, and, accordingly, are exempt from the Board of Governors of the Federal Reserve System's ("Federal Reserve") generally applicable risk-based capital ratio and leverage ratio requirements. The Bank is subject to minimum risk-based and leverage capital requirements under federal regulations implementing the Basel III framework, and 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, 2022, 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, 2022 and December 31, 2021 for Bancorp and the Bank are presented in the following tables. As of March 31, 2022 and December 31, 2021, Bancorp's Tier 2 capital included subordinated debt, which was not included at the Bank level.

| Capital Ratios for Bancorp | Actual Ratio | | Required for Capital Adequacy Purposes[1] | | Ratio to be Well-Capitalized under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **March 31, 2022** | | | | | | |
| Total capital (to risk-weighted assets) | $ 288,468 | 13.07 % | $ 176,568 | ≥ 8.00 % | N/A | N/A |
| Tier 1 capital (to risk-weighted assets) | $ 236,059 | 10.70 % | $ 132,369 | ≥ 6.00 % | N/A | N/A |
| Common equity tier 1 capital (to risk-weighted assets) | $ 236,059 | 10.70 % | $ 99,277 | ≥ 4.50 % | N/A | N/A |
| Tier 1 leverage | $ 236,059 | 9.02 % | $ 104,682 | ≥ 4.00 % | N/A | N/A |
| **December 31, 2021** | | | | | | |
| Total capital (to risk-weighted assets) | $ 285,128 | 13.98 % | $ 163,177 | ≥ 8.00 % | N/A | N/A |
| Tier 1 capital (to risk-weighted assets) | $ 233,397 | 11.44 % | $ 122,382 | ≥ 6.00 % | N/A | N/A |
| Common equity tier 1 capital (to risk-weighted assets) | $ 233,397 | 11.44 % | $ 91,787 | ≥ 4.50 % | N/A | N/A |
| Tier 1 leverage | $ 233,397 | 9.47 % | $ 98,600 | ≥ 4.00 % | N/A | N/A |

| Capital Ratios for the Bank | Actual Ratio | | Required for Capital Adequacy Purposes | | Ratio to be Well-Capitalized under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **March 31, 2022** | | | | | | |
| Total capital (to risk-weighted assets) | $ 282,897 | 12.83 % | $ 176,397 | ≥ 8.00 % | $ 220,497 | ≥ 10.00 % |
| Tier 1 capital (to risk-weighted assets) | $ 258,891 | 11.74 % | $ 132,312 | ≥ 6.00 % | $ 176,416 | ≥ 8.00 % |
| Common equity tier 1 capital (to risk-weighted assets) | $ 258,891 | 11.74 % | $ 99,234 | ≥ 4.50 % | $ 143,338 | ≥ 6.50 % |
| Tier 1 leverage | $ 258,891 | 9.89 % | $ 104,708 | ≥ 4.00 % | $ 130,885 | ≥ 5.00 % |
| **December 31, 2021** | | | | | | |
| Total capital (to risk-weighted assets) | $ 279,152 | 13.69 % | $ 163,078 | ≥ 8.00 % | $ 203,848 | ≥ 10.00 % |
| Tier 1 capital (to risk-weighted assets) | $ 255,807 | 12.55 % | $ 122,309 | ≥ 6.00 % | $ 163,078 | ≥ 8.00 % |
| Common equity tier 1 capital (to risk-weighted assets) | $ 255,807 | 12.55 % | $ 91,731 | ≥ 4.50 % | $ 132,501 | ≥ 6.50 % |
| Tier 1 leverage | $ 255,807 | 10.38 % | $ 98,555 | ≥ 4.00 % | $ 123,193 | ≥ 5.00 % |

[1] Presented as if Bancorp were subject to Basel III capital requirements. The Company operates under the Small Bank Holding Company Policy Statement and therefore is not currently subject to generally applicable capital adequacy requirements.

**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.

Allowance for loan losses to total loans held for investment, excluding PPP loans, is defined as allowance for loan losses, divided by total loans held for investment less PPP loans. The most directly comparable GAAP financial measure is allowance for loan losses to total loans held for investment.

Average loans held for investment and sale, excluding PPP loans, is defined as the daily average loans held for investment and sale, excluding the daily average PPP loans, and includes both performing and nonperforming loans. The most directly comparable GAAP measure is average loans held for investment and sale.

Average loan yield, excluding PPP loans, is defined as the daily average loan yield, excluding PPP loans, and includes both performing and nonperforming loans. The most directly comparable GAAP financial measure is average loan yield.

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 their non-GAAP financial measures when making comparisons.

The following reconciliation table provides a more detailed analysis of these non-GAAP financial measures, along with their most directly comparable financial measures calculated in accordance with GAAP.

| **Allowance for loan losses to total loans held for investment, excluding PPP loans (dollars in thousands)** | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| Allowance for loan losses (numerator) | $ 23,904 | $ 23,243 |
| Total loans held for investment | 2,080,158 | 1,934,460 |
| Less: PPP loans | 1,528 | 22,124 |
| Total loans held for investment, excluding PPP loans (denominator) | $ 2,078,630 | $ 1,912,336 |
| Allowance for loan losses to total loans held for investment, excluding PPP loans | 1.15 % | 1.22 % |

| **Average loans held for investment and sale, excluding PPP loans (dollars in thousands)** | **For the three months ended** | |
|---|---|---|
| | **March 31, 2022** | **March 31, 2021** |
| Average loans held for investment and sale | $ 1,977,509 | $ 1,526,130 |
| Less: average PPP loans | 8,886 | 176,384 |
| Average loans held for investment and sale, excluding PPP loans | $ 1,968,623 | $ 1,349,746 |

| Average loan yield, excluding PPP loans (dollars in thousands) | For the three months ended March 31, 2022 | For the three months ended March 31, 2021 |
|---|---|---|
| Interest and fee income on loans | $ 22,091 | $ 18,613 |
| Less: interest and fee income on PPP loans | 610 | 2,400 |
| Interest and fee income on loans, excluding PPP loans | $ 21,481 | $ 16,213 |
| Annualized interest and fee income on loans, excluding PPP loans (numerator) | $ 87,117 | $ 65,753 |
| | | |
| Average loans held for investment and sale | $ 1,977,509 | $ 1,526,130 |
| Less: average PPP loans | 8,886 | 176,384 |
| Average loans held for investment and sale, excluding PPP loans (denominator) | $ 1,968,623 | $ 1,349,746 |
| Average loan yield, excluding PPP loans | 4.43 % | 4.87 % |

**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, 2022 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.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2022 that has materially affected, or is reasonably likely to materially affect, such controls.

## 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 Annual report on Form 10-K for the year ended December 31, 2021, previously filed with the SEC.

### 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.

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| Exhibit Number | Exhibit Description | Form | File No. | Exhibit | Filing Date | Herewith |
| 3.1 | Amended and Restated Articles of Incorporation of Five Star Bancorp | 10-Q | 001-40379 | 3.1 | June 17, 2021 | |
| 3.2 | Amended and Restated Bylaws of Five Star Bancorp | 10-K | 001-40379 | 3.2 | February 25, 2022 | |
| 4.1 | Form of Common Stock Certificate of Five Star Bancorp | S-1 | 333-255143 | 4.1 | April 26, 2021 | |
| 10.1* | Executive Employment Agreement, dated March 23, 2022, between Five Star Bank and James Beckwith, effective January 3, 2022 | | | | | Filed |
| 10.2* | Five Star Bank Salary Continuation Agreement, dates September 1, 2007, as amended, between Five Star Bank and James Beckwith (included as Exhibit A to the Executive Employment Agreement filed herewith as Exhibit 10.1) | | | | | Filed |
| 31.1 | 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 | | | | | Filed |
| 31.2 | 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 | | | | | Filed |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | Filed |
| 32.2 | 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 | | | | | Filed |
| 101 | Inline XBRL Interactive Data | | | | | Filed |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document in Exhibit 101) | | | | | Filed |

*Management contract or compensatory plan, contract, or arrangement.

**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<br>(registrant) |
| May 12, 2022 | */s/ James Beckwith* |
| Date | James Beckwith<br>President &<br>Chief Executive Officer<br>(Principal Executive Officer) |
| May 12, 2022 | */s/ Heather Luck* |
| Date | Heather Luck<br>Senior Vice President &<br>Chief Financial Officer<br>(Principal Financial Officer) |

# 2022 EXECUTIVE EMPLOYMENT AGREEMENT

This 2022 Executive Employment Agreement ("Agreement") is entered into in Sacramento, California and is effective as of the 3rd day of January 2022 ("Effective Date") by and between Five Star Bank, a California commercial bank ("Bank"), and James Beckwith ("Beckwith"). Bank and Beckwith are collectively referred to herein as "Parties."

## RECITALS

A. Bank currently employs Beckwith and Bank and Beckwith desire to continue Bank's employment of Beckwith.

B. Beckwith possesses the requisite knowledge, skill and experience to serve as the chief executive of Bank.

C. Bank and Beckwith are parties to an Executive Employment Agreement, dated as of January 3, 2019 (the "2019 Agreement"), the "Term" (as defined therein) of which expired immediately prior to the Effective Date, and the parties desire that this Agreement will restate, supersede and replace the 2019 Agreement.

In consideration of the mutual covenants, promises and conditions set forth herein, Bank and Beckwith agree as follows:

## Article 1. Term and Title

1.1 President and Chief Executive Officer of Bank. During the Term of Employment defined below, Beckwith shall serve as the President and Chief Executive Officer of Bank. The Parties contemplate that Beckwith shall report directly to the Chairman of the Board of Bank and to the Board of Bank.

1.2 President and Chief Executive Officer of Five Star Bancorp. During the Term of Employment defined below, Beckwith shall serve as the President and Chief Executive Officer of Five Star Bancorp and shall continue to serve as the President and Chief Executive Officer of Five Star Bancorp for so long as Beckwith serves as the President and Chief Executive Officer of Bank. The Parties contemplate that Beckwith, in his capacity as President and Chief Executive Officer of Five Star Bancorp, shall report directly to the Chairman of the Board of Five Star Bancorp and to the Board of Five Star Bancorp. Beckwith shall not receive any additional or supplemental compensation for his role as the President and Chief Executive Officer of Five Star Bancorp. Five Star Bancorp, Bank, and Five Star Bancorp's other subsidiaries are collectively referred to herein as "Bank Group."

1.3 Director of Bank and Five Star Bancorp. During the Term of Employment defined below, Beckwith shall serve as a member of the Board of Bank and as a member of the Board of Five Star Bancorp. Beckwith agrees to fulfill all of his duties as a member of the Board of Bank and of the Board of Five Star Bancorp and Beckwith agrees to resign immediately from the Board of Bank and the Board of Five Star Bancorp upon the termination of his employment as the President and Chief Executive Officer of Bank or of Five Star Bancorp. Beckwith shall not receive additional or supplemental compensation for his role as a Director of Bank or his role as a Director of Five Star Bancorp.

1.4 Term of Employment. Subject to any earlier termination as provided in Article 5 herein below, Beckwith's employment under this Agreement shall commence on the Effective Date and shall continue for a three (3) year period ("Term"), also subject to any extension as set forth herein. Upon expiration of the Term, and each subsequent term or extension thereof, this Agreement shall automatically be extended for an additional term of one (1) year, unless Beckwith or Bank shall have notified the other party hereto of his or its election to terminate this Agreement not later than sixty (60) days prior to the end of such subsequent term or extension thereof (the Term, together with any extensions, until termination in accordance herewith, shall be referenced herein as the "Term of Employment"). Nothing stated in this Agreement or represented orally or in writing to either Party shall create any obligation to renew this Agreement and the decision of Bank not to extend the Term or any subsequent term, shall not be deemed a termination of employment entitling Beckwith to any severance compensation or separation benefits under either this Agreement or any Bank or Bank severance plan or practice then in effect.

## Article 2. Duties of Beckwith

1.1 Compliance with Law. Beckwith hereby agrees to use his best efforts as President and CEO of Bank and President and CEO of Five Star Bancorp and agrees to perform such related duties as are customary for the chief executive officer of a financial institution or as may reasonably be required by Bank Group from time to time. Beckwith agrees during the Term of Employment to remain knowledgeable of, and to comply with, all applicable rules and regulations relating to banking and to keep informed of, and to comply with, all applicable federal, state and local laws, regulations, and/or ordinances governing the conduct of Bank Group's business, including, but not limited to, relevant sections of the California Department of Financial Protection and Innovation ("DFPI"), the applicable rules and regulations of the Federal Deposit Insurance Corporation ("FDIC"), the Consumer Financial Protection Bureau, and the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, and the policies and procedures of Bank Group.

1.2 Bank Management Obligations. Pursuant to, and in accordance with, the policies and procedures of Bank Group, as may be amended from time to time in Bank Group's discretion, Beckwith shall be responsible for the general management of Bank Group consistent with the intent of this Agreement and sound business practices. Beckwith shall assist Bank Group in (1) the creation, maintenance and monitoring of Bank Group's relationships to ensure the legal and ethical conduct of business, (2) the supervising of Bank Group personnel and to ensure compliance with all applicable state and federal laws, and (3) the recruiting of senior executive staff as needed.

1.3 Full Time Employment. Beckwith shall devote his full energies, abilities and productive time to the performance of the services contemplated under this Agreement, unless an alternative arrangement is agreed to by the Chairman of the Board of Bank. Beckwith shall not engage in any business or personal activities that would interfere or conflict with the performance of Beckwith's duties under this Agreement, without the prior written consent of the Chairman of the Board of Bank.

1.4 Location. Beckwith agrees to perform the services contemplated under this Agreement at the office location(s) authorized and approved by the Chairman of the Board of Bank.

## Article 3. Beckwith's Compensation, Incentive and Benefits

1.1 Base Salary. During the Term of Employment, Bank shall pay Beckwith a competitive base salary as determined by the Compensation Committee of Bank and Compensation Committee of Five Star Bancorp (collectively, the "Committees"). Base salary will be payable in accordance with the standard payroll procedures of Bank. Beckwith's base salary may be adjusted periodically to reflect such changes as the Committees determine appropriate.

1.2 Annual Bonus. During the Term of Employment, Beckwith shall be eligible for an annual bonus in accordance with the terms of the applicable bonus program and subject to the oversight and discretion of the Committees. Unless otherwise determined by the Committees or set forth in the applicable program, Beckwith must be employed in good standing on the date of payment to receive an annual bonus. The Committees shall determine Beckwith's eligibility for and payment under any other incentive program.

1.3 Equity Compensation. Beckwith may receive equity awards in Five Star Bancorp during the Term of Employment as determined by the Compensation Committee of Five Star Bancorp in its sole discretion.

1.4 Participation In Five Star Bank Benefit Plans. Beckwith shall be eligible to participate in those group employee benefit plans, including, without limitation, medical, dental, and life insurance, which Bank makes available to similarly situated employees from time to time, subject to all terms and conditions of those plans and amendments thereto, including, without limitation, any and all provisions concerning eligibility for participation.

1.5 Expenses. Upon presentation of appropriate vouchers and receipts, Bank shall reimburse Beckwith, in a manner similar to other senior Bank executives, for all reasonable business expenses incurred by Beckwith.

1.6 Retirement Plan. During the Term of Employment, Beckwith shall be entitled to participate in retirement plans generally offered to other senior Bank executives.

1.7 Salary Continuation Agreement. Beckwith shall be entitled to the benefits set forth in the Five Star Bank Salary Continuation Agreement dated September 1, 2007, as amended on December 31, 2008 and on July 1, 2014, all of which are attached hereto as Exhibit A (the "Salary Continuation Agreement").

1.8 Automobile. Bank shall provide an automobile or auto allowance to Beckwith at the discretion of the Committees.

1.9 Vacation. During the Term of Employment, Beckwith shall be entitled to vacation according to Bank's vacation policies.

## Article 4. Beckwith's Confidentiality, Unfair Competition and Related Obligations

1.1 Safeguarding Customer Information. Beckwith has and will learn of, and come into possession of, non-public information regarding borrowers or prospective borrowers("Customer Information") . Beckwith agrees to comply with all Bank Group policies regarding Customer Information, to take all reasonable measures to ensure the security and confidentiality of Customer Information, to protect against any anticipated threats or hazards to the security of such information and to protect against the unauthorized access to or use of Customer Information, which could result in substantial harm or inconvenience to any borrower or prospective borrower. Beckwith agrees that he will use such Customer Information only for the limited purpose(s) for which it is disclosed, and for no other purpose. Beckwith further agrees to comply with all federal and state laws governing the disclosure of Customer Information. Customer Information includes, regardless of the form in which it is handled or maintained, without limitation, names, addresses, banking history, bank and credit card account numbers, income and credit information and social security numbers.

1.2 Confidential Information. Beckwith acknowledges that Bank Group owns proprietary Confidential Information which constitutes a valuable, special and unique asset. This Confidential Information has been compiled and developed by Bank Group over time at considerable expense and effort, has not been divulged to third parties, and is not known to Bank Group's competitors, who could have obtained economic value from such information had it been known. As used herein, the term "Confidential Information" includes all information and materials belonging to, used by, or in the possession of Bank Group relating to its products, processes, services, technologies, inventions, patents, ideas, contracts, forms, records, data, processes, financial information, business strategies, pricing, marketing plans, customer lists, and trade secrets of every kind and character, but shall not include (a) information that was already within the public domain at the time the information was acquired by Beckwith, or (b) information that subsequently becomes public through no act or omission of Beckwith or anyone at Beckwith's direction. Beckwith agrees that all Confidential Information is and shall continue to be the exclusive property of Bank Group, whether or not prepared in whole or in part by Beckwith and whether or not disclosed to or entrusted to Beckwith's custody. Beckwith's obligation to preserve the secrecy of Confidential Information shall survive the termination or expiration of this Agreement and his employment. Upon termination of Beckwith's employment, Beckwith agrees to return to Bank all files, papers, and materials of any kind containing or relating to Confidential Information or Customer Information.

1.3 Non-Solicitation. Beckwith acknowledges that Bank Group's relationships with its employees are of important and immeasurable value, and Bank Group would be materially harmed if, following his termination of employment, Beckwith solicited Bank Group's employees. Beckwith agrees that if Bank terminates Beckwith for any reason under Section 5.2, Beckwith leaves employment with Bank for any reason under Section 5.3, or Beckwith's employment terminates on account of the expiration of the Term or a renewal period, then for a period of twenty-four (24) months following such termination, he shall not induce or attempt to induce any employee of Bank Group (a) to discontinue employment or association with Bank, (b) to obtain employment with a competitor of Bank Group, or (c) to provide services to Beckwith or any company or venture affiliated with Beckwith.

1.4 Non-Disparagement. During and after the Term of Employment, Beckwith will not (a) make, publish or communicate, to any entity or person or in any public forum, any negative, defamatory, maliciously false or otherwise disparaging remarks, comments or statements concerning Bank Group or its officers, directors, employees, agents, business, products or services, or (b) make disparaging remarks which would violate Beckwith's fiduciary duties. This Section 4.4 does not restrict or impede Beckwith from exercising rights under Section 7 of the National Labor Relations Act (or any other protected rights) to the extent that such rights cannot be waived by agreement.

1.5 Certain Disclosures. Pursuant to the Defend Trade Secrets Act of 2016, Beckwith will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law, or is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Nothing in this Agreement shall be construed to prevent disclosure of Confidential Information or Customer Information, or Beckwith providing truthful statements in order to comply with any applicable law or regulation or any valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed the extent required by such law, regulation or order. To the extent permitted, Beckwith shall promptly provide written notice of any such order or requirement to the Board of Bank. Nothing in this Agreement prevents Beckwith from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that Beckwith has reason to believe is unlawful.

1.6 Prior Agreements. Beckwith represents and covenants that he is not bound by any agreement in effect with any prior employer, or anyone else, which would preclude, limit or in any manner restrict the performance of his duties under this Agreement or on behalf of Bank Group. Without limiting the foregoing, Beckwith expressly acknowledges and agrees that during the performance of his duties under this Agreement, he has not and will not violate the terms and conditions of any agreement with respect to the use or misappropriation of proprietary information or trade secrets of any former employer. Beckwith further acknowledges and agrees that he has not divulged or used any such information for the benefit of Bank Group.

## Article 5. Termination

1.1 Death or Disability.

a) In the event of Beckwith’s death during the Term of Employment, the Term of Employment shall automatically terminate.

b) Bank and Beckwith respectively shall each have the right to terminate the Term of Employment in the event of Beckwith’s Disability. “Disability” as used in this Agreement shall have the meaning set forth in Section 22(e)(3) of the Internal Revenue Code (the “Code”), which, as of the date of this Agreement, is as follows:

> An individual is permanently and totally disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

A termination of Beckwith’s employment by either party for Disability shall be communicated to the other party by written notice, and shall be effective on the tenth (10th) day after receipt of such notice by the other party (the “Disability Effective Date”), unless Beckwith returns to full-time performance of his duties before the Disability Effective Date.

1.2 By Bank.

a) Bank shall have the right to terminate Beckwith’s employment for Cause. “Cause” as used in this Agreement shall mean:

i) Beckwith’s charge of or conviction by, or entry of a plea of guilty or *nolo contendere* in a court of competent jurisdiction, for any crime involving moral turpitude or a felony in the jurisdiction involved;

ii) Beckwith’s willful refusal or negligent failure to perform Beckwith’s duties as required by this Agreement;

iii) Beckwith’s gross negligence, insubordination or material violation of any duty of loyalty or fiduciary duty to Bank Group or any other material misconduct on the part of Beckwith;

iv) Revocation of any approvals required by the FDIC or the DFPI for Beckwith to perform his assigned duties and responsibilities with Bank Group, including without limitation, Beckwith's removal or prohibition from participating in the conduct of Bank's affairs by an order issued under section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. §1818(e)(3) and (g)(1)) or sections 585-589 of the California Financial Code, or Beckwith otherwise becoming ineligible to perform his assigned duties under applicable law;

v) Beckwith's material failure to comply with all applicable federal, state and local laws, regulations, and/or ordinances governing his duties with Bank Group; or

vi) Beckwith's material breach of any other provision of this Agreement.

b) Bank shall also have the right to terminate Beckwith's employment without "Cause" at any time, with or without notice, subject solely to the requirements set forth in Section 5.8 below.

1.3 By Beckwith.

a) Beckwith shall have the right to terminate the Employment Term for Good Reason (as defined below), upon thirty (30) days' written notice to Bank delivered within thirty (30) days following the occurrence of an event constituting Good Reason; provided that Bank shall have thirty (30) days after the date such notice has been received by Bank in which to cure the conduct specified in such notice. Beckwith's continued employment during such thirty (30) day period shall not constitute Beckwith's consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder. For purposes of this Agreement "Good Reason" shall mean, without Beckwith's consent:

i) a significant material adverse change in Beckwith's position or responsibilities, including (1) following a change in control, Beckwith ceasing to serve as Chief Executive Officer of the acquiring or surviving entity, as applicable, (2) a material change in duties that represents a substantial reduction in the position or responsibilities in effect immediately prior thereto, or (3) the assignment to Beckwith of any significant duties or responsibilities that are materially inconsistent with such position or responsibilities; except in connection with the termination of Beckwith's employment for Cause, as a result of his Disability or death, or by Beckwith other than for Good Reason;

ii) a material reduction in Beckwith's Base Salary other than in connection with a general reduction in wages for all senior executive employees of Bank;

iii) Bank requiring Beckwith to be based at any place outside a sixty (60) mile radius of his initial place of employment with Bank, except for reasonably required travel on Bank's business;

iv) Bank's failure to provide Beckwith with any material compensation, including salary, bonuses, and benefits, as outlined in this Agreement; or

v) any material breach by Bank of its obligations to Beckwith under this Agreement.

b) Beckwith shall have the right to terminate his employment hereunder without Good Reason by providing Bank with a written notice of termination, and such termination shall not in and of itself be a breach of this Agreement.

1.4 Bank's Default. If Bank is in default (as defined in section 3(x)(1) of the Federal Deposit Insurance Act), all obligations under this Agreement shall terminate as of the date of default, except to the extent determined that continuation of the Agreement is necessary for the continued operation of Bank:

a) by the FDIC at the time the FDIC enters into an agreement to provide assistance to or on behalf of the association under the authority contained in 13(c) of the Federal Deposit Insurance Act; or

b) by the FDIC at the time of approval of a supervisory merger to resolve problems related to operation of the association or when the association is determined by the FDIC to be in an unsafe or unsound condition.

1.5 Beckwith's Temporary Suspension. If Beckwith is suspended or temporarily prohibited from participating in the conduct of Bank's or Bank Group's affairs by a notice served under section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1818(e)(3) and (g)(1)) or sections 585-589 of the California Financial Code, Bank's obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If the charges in the notice are dismissed, Bank may in its discretion (i) pay Beckwith all or part of the compensation withheld while its obligations under this Agreement were suspended, and (ii) reinstate (in whole or in part) any of its obligations which were suspended.

1.6 Loan Files. Upon termination of Beckwith's employment for any reason, all loan files, whether pending or closed, shall remain with, or promptly be returned to Bank, at Bank's election, along with any Confidential Information in Beckwith's possession. Beckwith acknowledges and agrees that all such files and Confidential Information are the sole and exclusive property of Bank and no copies shall be retained by Beckwith.

1.7 Computers/Equipment. Immediately upon the termination of Beckwith's employment for any reason, any and all computer hardware and other equipment provided to Beckwith by Bank Group shall be returned to Bank.

1.8 Effect of Termination Upon Beckwith's Compensation.

a) General. In the event Beckwith's employment terminates for any reason, Beckwith shall be entitled to his Base Salary through the effective date of termination (the "Termination Date"), reimbursement for reasonable business expenses incurred through the Termination Date in accordance with Section 3.5, and benefits accrued and vested under the employee benefits plans in which Beckwith participants in accordance with the terms of such plans.

b) Termination by Bank Without Cause or by Beckwith With Good Reason.

i) In the event Beckwith's employment is terminated by Bank without Cause or should Beckwith terminate his employment for Good Reason in accordance with Section 5.3(a), then, in addition to the payments and benefits set forth in Section 5.8(a), subject to Beckwith complying with the requirements set forth in this Section 5.8(b), Beckwith shall receive a "Severance Payment" equal to the sum of (1) twenty-four (24) months of Base Salary plus (2) two (2) times the most recently paid annual cash bonus received by Beckwith. Subject to the other provisions set forth herein, the Severance Payment shall be paid in lump sum in the seventh (7th) month following termination and in accordance with the requirements of Section 409A of the Code. Beckwith shall not be entitled to any other severance or separation payments or benefits under any Bank Group policy, program or arrangement, except as may be provided under the Salary Continuation Agreement.

ii) Beckwith's rights to the Severance Payment shall be conditioned on Beckwith signing and not revoking a separation agreement, in a form provided by Bank, that confirms Beckwith's continuing obligations to Bank Group and includes a release of all claims against Bank Group and its affiliates, officers, directors, employees and related parties (the "Release Agreement") and such Release Agreement becoming effective and irrevocable within sixty (60) days following the Termination Date. Beckwith's rights to the Severance Payment shall also be conditioned on Beckwith complying with Beckwith's continuing obligations under Article 4. In the event that Beckwith breaches or violates any such obligations, Beckwith will forfeit his right to receive any unpaid portion of the Severance Payment and will promptly repay to Bank any portion of the Severance Payment previously paid to Beckwith.

c) Golden Parachute Payments. Bank Group shall have no obligation to make any Severance Payment or other payment that is prohibited by or subject to approval under section 359 of Title 12 of the Code of Federal Regulations. 12 C.F.R. § 359 (2011).

## Article 6. Tax Considerations

1.1 Withholding. All payments and benefits shall be subject to applicable taxes and withholding, as required by applicable law or authorized by Beckwith.

1.2 Section 409A. The Parties intend that the payments and benefits under this Agreement comply with, or meet an exemption from, Section 409A of the Code, and this Agreement shall be interpreted consistent with this intent; provided, however, that nothing herein shall be transfer liability for any tax, including any tax under Section 409A of the Code, from Beckwith to Bank, Five Star Bancorp, or any other person or entity. Any payment that is subject to Section 409A of the Code and that is contingent on a termination of employment is contingent on a "separation from service" within the meaning of Section 409A of the Code. Each such payment shall be considered to be a separate payment for purposes of Section 409A of the Code. If, upon separation from service, Beckwith is a "specified employee" within the meaning of Section 409A, any payment under this Agreement that is subject to Section 409A of the Code, and triggered by a separation service, and would otherwise be paid within six months after Beckwith's separation from service will instead be paid in the seventh month following Beckwith's separation from service (to the extent required by Section 409A(a)(2)(B)(i)). Any taxable reimbursement shall be paid no later than December 31 of the year after the year in which the expense is incurred, and all taxable reimbursements and in-kind benefits shall be provided in accordance with Treas. Reg. § 1.409A-3(i)(1)(iv).

1.3 Section 280G "Best Net". If any payments or benefits to Beckwith under this Agreement or otherwise would constitute a "parachute payment" within the meaning of Section 280G of the Code and, but for this Section 6.3, would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Beckwith's payments and benefits shall be reduced to the greatest amount that would not be subject to the Excise Tax if, after taking into account applicable federal, state, local and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, Beckwith would retain a greater amount on an after-tax basis following such reduction. Payments and benefits shall be reduced in the following order, in each case, in reverse chronological order: (a) cash payments not subject to Section 409A of the Code; (b) cash payments subject to Section 409A of the Code; (c) equity-based payments and acceleration; and (d) non-cash forms of benefits. Unless Bank and Beckwith otherwise agree in writing, any determination required under this Section 6.3 shall be made by an accounting firm selected by Bank (the "Accountant"), whose determination shall be conclusive and binding. The Accountant may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. Bank and Beckwith will furnish to the Accountant such information and documents as the Accountant may reasonably request in order to make a determination under this Section 6.3. Bank shall bear all costs the Accountant may reasonably incur in connection with such calculations.

## Article 7. Notices

1.1 Notices. Any notice given hereunder by either Party to the other may be effected either by personal delivery in writing or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notices shall be addressed to the Parties at the following addresses:

Bank or Bank Group:

Chairman of the Board
Five Star Bank
3100 Zinfandel Dr. #100
Rancho Cordova, CA 95670

James Beckwith: at the address in Bank's payroll or personnel file

Each Party may change his or its address by written notice in accordance with this section of the Agreement. Notices delivered personally shall be deemed communicated as of the actual date of receipt. Mailed notices shall be deemed communicated no later than three (3) business days after deposit in the United States mail.

## Article 8. Dispute Resolution

1.1 Dispute Resolution Procedures. Any controversy, claim, or dispute arising out of, relating to, or resulting from this Agreement or any other matter in any way relating to or arising out of Beckwith's employment with Bank (collectively "Dispute"), shall first be subject to good faith negotiation between the Parties. If the

Dispute cannot be settled through negotiation, the Parties agree to attempt in good faith to settle the Dispute by mediation administered by JAMS, as set forth in Section 8.2. If the Parties are unsuccessful at resolving the Dispute through such mediation, the Parties agree to arbitration as set forth in Section 8.3. This Article 8 replaces all prior agreements regarding the resolution of disputes covered by this Agreement and is the full and final agreement relating to the formal resolution of disputes covered by this Agreement. This Article 8 shall survive the termination of Beckwith's employment, and can only be revoked or modified by a writing signed by an officer of Bank and Beckwith, which specifically states an intent to revoke or modify this Article 8.

1.2 Mediation. Either Party may commence mediation of a good faith Dispute by providing to the Judicial Arbitration and Mediation Services ("JAMS") and the other Party a written request for mediation. Such request shall set forth the subject of the Dispute and the relief requested. The Parties will cooperate with JAMS and with one another in selecting a mediator from the JAMS panel of neutrals, and in scheduling the mediation proceedings which shall be conducted in Sacramento, California. The Parties covenant that they will participate in the mediation in good faith. All offers, promises, conduct and statements, whether oral or written, made in the course of the mediation by any of the Parties and/or their respective agents, employees, experts and attorneys, and by the mediator or any JAMS employees, are confidential, privileged, and inadmissible for any purpose, including impeachment, in any arbitration or other proceeding involving the Parties, provided that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation.

1.3 Arbitration.

a) The Parties agree that any and all Disputes shall be subject to binding arbitration pursuant to the Federal Arbitration Act (9 U.S.C. sec. 1 et seq.) (the "FAA"). The FAA's substantive and procedural provisions shall exclusively govern and apply with full force and effect to this Agreement, including its enforcement, and any state court of competent jurisdiction shall compel arbitration in the same manner as a federal court under the FAA. Both Bank and Beckwith are giving up any right that either of them might have to have a judge or jury decide any Dispute, and such Disputes include without limitation claims arising out of or relating to interpretation or application of this arbitration provision, including without limitation the enforceability, revocability, or validity of the arbitration provision. The Parties agree that the arbitrator's award shall be final and binding on the Parties, provided that any award shall be reviewable by a court of law to the fullest extent allowed by law including for any error of law by the arbitrator. This provision to arbitrate shall not apply to Disputes that cannot be subject to a pre-dispute arbitration agreement, to claims for injunctive or other equitable relief as provided in Section 8.4, or to any claims or disputes arising out of or relating to any Bank plan subject to the Employee Retirement Income and Security Act ("ERISA"), which claims or disputes shall be subject to ERISA. The Parties further agree that the fullest extent permitted by law, any Dispute shall be brought in the individual capacity of Bank or Beckwith, and not as a collective or representative claim on behalf of any persons or class.

b) Any arbitration will be administered by JAMS, pursuant to each of its Employment Arbitration Rules & Procedures and subject to JAMS Policy on Employment Arbitration Minimum Standards of Procedural Fairness, each as then in effect. A copy of the current JAMS rules can be obtained at https://www.jamsadr.com/rules-employment-arbitration/, or by requesting a copy from the Company. The Parties will each bear their own costs for legal representation, discovery, deposition, expert witnesses, and other legal costs ordinarily borne by a party in litigation. The Parties shall share the cost of the arbitrator and arbitration proceedings equally, except that the costs of the arbitrator and arbitration proceedings to be paid by Beckwith shall not exceed the amount Beckwith would have had to pay in court costs to initiate or respond to a civil action had the matter been pursued in court. The arbitrator shall have discretion to award monetary and other damages or to award no damages, and to fashion any other relief the arbitrator deems appropriate but only to the extent consistent with law. The Parties agree that the arbitrator shall have discretion to award the prevailing party reasonable costs and attorney's fees incurred in bringing or defending a Dispute under this Section 8.3, to the fullest extent allowed by law at the time of the arbitration. Any award by the arbitrator shall be accompanied by a written statement of the factual and legal bases for the award. Any arbitration shall take place in the City of Sacramento, County of Sacramento, California, and both Bank and Beckwith agree to submit to the jurisdiction of the arbitrator.

c) Beckwith understands that this Agreement does not prohibit him from pursuing an administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment. This Agreement does, however, preclude Beckwith from pursuing a court action regarding any such claim, except as permitted by law.

1.4 Injunctive Relief. In accordance with Rule 1281.8 of the California Code of Civil Procedure, the Parties agree that any Party may also petition the court for injunctive relief where either party alleges or claims a violation of Article 4 or any other agreement regarding intellectual property, confidential information or noninterference. In the event either Party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees to the extent permitted by law.

## Article 9. Miscellaneous Provisions

1.1 Integration. This Agreement supersedes any and all other agreements, either oral or in writing, between Bank and Beckwith with respect to Beckwith's performance of services as an agent or employee of Bank, including, without limitation, the 2019 Agreement, and contains all the covenants and agreements between the Parties with respect to such services in any manner whatsoever. Each Party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by the other Party which are not embodied herein, and that no other agreement statement or promise not contained in this Agreement shall be valid or binding.

1.2 Assignment. This Agreement may not be assigned by Beckwith, but shall inure to the benefit of, and shall be binding upon, the successors and assigns of Bank.

1.3 Receipt of Agreement. Each of the Parties acknowledges that he or it has read this Agreement in its entirety and hereby acknowledges receipt of a fully-executed copy thereof.

1.4 Governing Law/Jurisdiction/Venue. This Agreement shall be governed by and construed under the laws of the State of California, without regard to its conflicts of laws principles. The Parties agree that any action taken to enforce the terms of this Agreement, including judicial action not inconsistent with the arbitration provisions hereunder, shall come under the jurisdiction of, and be properly heard and adjudicated in the Courts of the State of California and that venue shall be proper in the County of Sacramento.

1.5 Captions and Section Headings. Captions and section headings used herein are for convenience only and are not part of this Agreement and shall not be used in construing it.

1.6 Amendments and Waiver. This Agreement may be amended from time to time only by a writing signed by both Parties. A waiver of any of the terms and conditions hereof shall not be construed as a waiver of any other provision, nor shall any waiver constitute a continuing waiver or commit a-Party to providing a waiver in the future.

1.7 Survival. The covenants, agreements, representations and warranties made herein shall survive the termination of this Agreement, unless the context clearly provides otherwise. Specific survival provisions shall not lessen the survival nature of provisions without such specificity.

1.8 Severability. If a court or arbitrator of competent jurisdiction finds any provision in this Agreement to be invalid, illegal, or otherwise unenforceable, that determination will not affect any other provision of this Agreement. The invalid provision will be severed from this Agreement and all remaining provisions will continue to be enforceable by their terms and of full force and effect.

1.9 Interpretation. Any ambiguity in the language, words, phrases, gender identifiers, sentences, or provisions contained herein is not to be interpreted against a Party merely by reason of that Party having drafted, suggested, transcribed, or dictated such provision. In interpreting this Agreement the intentions of the Parties, as expressed in this Agreement, shall be paramount and this Agreement shall be read as a whole document in order to ascertain the intentions of the Parties with respect to any particular word, phrase, sentence, or provision. This Agreement shall not be deemed to have been prepared or drafted by one Party or another, and shall be construed accordingly.

1.10 Rights and Remedies. No right, power or remedy conferred upon a party in this Agreement shall be exclusive, and each such right, power and remedy shall be cumulative and in addition to every other right, power, or remedy, whether conferred in this Agreement or any other agreement, or now or hereafter available at law or in equity or by statute or otherwise.

1.11 Third-party Beneficiary. This Agreement has been made by, and is made solely for the benefit of Bank Group, Bank Group's successors and assigns. Nothing in this Agreement is intended to confer any rights or remedies under or because of this Agreement on any persons or entities other than the Parties to it and Bank Group's successors and assigns. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third persons or entities to any Party to this Agreement.

1.12 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute one and the same instrument. The Parties agree that a signed copy of this Agreement transmitted by one Party to the other by facsimile transmission shall be binding upon the sending Party to the same extent as a signed original of this Agreement.

This Agreement is entered into by and between the Parties as of the above written Effective Date.

Dated: 3/23/2022 /s/ James Beckwith

JAMES BECKWITH

Dated: 3/23/2022 FIVE STAR BANK

By: /s/ David J. Lucchetti
Name: David J. Lucchetti
Its: Board Chairperson

Attachment:
Exhibit A: Five Star Bank Salary Continuation Agreement and amendments

Exhibit A

Five Star Bank Salary Continuation Agreement

**FIVE STAR BANK**
**SALARY CONTINUATION AGREEMENT**

THIS SALARY CONTINUATION AGREEMENT (this "Agreement") is adopted this 1st day of September, 2007, by and between FIVE STAR BANK, located in Rocklin, California (the "Bank"), and JAMES BECKWITH (the "Executive").

The purpose of this Agreement is to provide specified benefits to the Executive, a member of a select group of management or highly compensated employees who contribute materially to the continued growth, development and future business success of the Bank. This Agreement shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended from time to time.

**Article 1**
**Definitions**

Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1 "Beneficiary" means each designated person or entity, or the estate of the deceased Executive, entitled to any benefits upon the death of the Executive pursuant to Article 4.

1.2 "Beneficiary Designation Form" means the form established from time to time by the Plan Administrator that the Executive completes, signs and returns to the Plan Administrator to designate one or more Beneficiaries.

1.3 "Board" means the Board of Directors of the Bank as from time to time constituted.

1.4 "Change in Control" means a change in the ownership or effective control of the Bank, or in the ownership of a substantial portion of the assets of the Bank, as such change is defined in Code Section 409A and regulations thereunder.

1.5 "Code" means the Internal Revenue Code of 1986, as amended, and all regulations and guidance thereunder, including such regulations and guidance as may be promulgated after the Effective Date.

1.6 "Early Termination" means the Executive's Separation from Service before attainment of Normal Retirement Age except when such Separation from Service occurs due to death or Termination for Cause or is made with Good Reason within twenty-four (24) months following Change in Control.

1.7 "Effective Date" means September 1, 2007.

1.8 "Good Reason" means the occurrence of any of the following events prior to Normal Retirement Age:

(a) Without the Executive's express written consent, the assignment to the Executive of any material duties or responsibilities inconsistent with the Executive's positions, or a change in the Executive's reporting responsibilities, titles, or offices, or any removal of the Executive from or any failure to re-elect the Executive to any of such positions;

(b) A reduction by the Bank in the Executive's base salary;

(c) The Bank requiring the Executive to be based anywhere beyond one hundred (100) miles from the location where the Executive is based on the date of a Change in Control except for required travel on the Bank business to an extent substantially consistent with the Executive's present business travel obligations or, in the event the Executive consents to any relocation, the failure by the Bank to pay (or reimburse the Executive) for all reasonable moving expenses incurred by the Executive relating to a change of the Executive's principal residence in connection with such relocation and to indemnify the Executive against any loss realized on the sale of the Executive's principal residence in connection with any such change of residence.

1.9 "Normal Retirement Age" means the Executive's age sixty-five (65).

1.10 "Plan Administrator" means the Board or such committee or person as the Board shall appoint.

1.11 "Plan Year" means each twelve (12) month period commencing on January 1 and ending on December 31 of each year. The initial Plan Year shall commence on the Effective Date of this Agreement and end on the following December 31.

1.12 "Schedule A" means the schedule attached to this Agreement and made a part hereof. Schedule A shall be updated upon a change in any of the benefits under Articles 2 or 3.

1.13 "Separation from Service" means termination of the Executive's employment with the Bank for reasons other than death. Whether a Separation from Service has occurred is determined in accordance with the requirements of Code Section 409A based on whether the facts and circumstances indicate that the Bank and Executive reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Executive would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than twenty percent (20%) of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding thirty-six (36) month period (or the full period of services to the Bank if the Executive has been providing services to the Bank less than thirty-six (36) months).

1.14 "Specified Employee" means an employee who at the time of Separation from Service is a key employee of the Bank, if any stock of the Bank is publicly traded on an established securities market or otherwise. For purposes of this Agreement, an employee is a key employee if the employee meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applied in accordance with the regulations thereunder and disregarding section 416(i)(5)) at any time during the twelve (12) month period ending on December 31 (the "identification period"). If the employee is a key employee during an identification period, the employee is treated as a key employee for purposes of this Agreement during the twelve (12) month period that begins on the first day of April following the close of the identification period.

1.15 "Termination for Cause" means Separation from Service for:

a) Gross negligence or gross neglect of duties to the Bank;

b) Conviction of a felony or of a gross misdemeanor involving moral turpitude in connection with the Executive's employment with the Bank; or

c) Fraud, disloyalty, dishonesty or willful violation of any law or significant Bank policy committed in connection with the Executive's employment and resulting in a material adverse effect on the Bank.

1.16 "Years of Participation" means the consecutive twelve (12) month period beginning on the Effective Date of this Agreement and any twelve (12) month anniversary thereof during the entirety of which time the Executive is a participant in this Agreement.

## Article 2
## Distributions During Lifetime

2.1 Normal Retirement Benefit. At Normal Retirement Age, the Bank shall distribute to the Executive the benefit described in this Section 2.1 in lieu of any other benefit under this Article.

2.1.1 Amount of Benefit. The annual benefit under this Section 2.1 is One Hundred Twenty-Five Thousand Dollars ($125,000).

2.1.2 Distribution of Benefit. The Bank shall distribute the annual benefit to the Executive in twelve (12) equal monthly installments commencing on the first day of the month following Normal Retirement Age. The annual benefit shall be distributed to the Executive for ten (10) years.

2.2 Early Termination Benefit. If Early Termination occurs, the Bank shall distribute to the Executive the benefit described in this Section 2.2 in lieu of any other benefit under this Article.

2.2.1 Amount of Benefit. The annual benefit under this Section 2.2 shall be a percentage of the Normal Retirement Benefit described in Section 2.1.1, determined according to the following table:

| Completed Years of Participation at Separation from Service | Percent of Normal Retirement Benefit |
|---|---|
| 0-9 | 0% |
| 10 | 50% |
| 11 | 70% |
| 12 | 90% |
| 13 or more | 100% |

2.2.2 Distribution of Benefit. The Bank shall distribute the annual benefit to the Executive in twelve (12) equal monthly installments commencing on the first day of the month following Normal Retirement Age. The annual benefit shall be distributed to the Executive for ten (10) years.

2.3 Change in Control Benefit. If a Change in Control occurs, followed within twenty-four (24) months by Separation from Service for Good Reason the Bank shall distribute to the Executive the benefit described in this Section 2.3 in lieu of any other benefit under this Article.

2.3.1 Amount of Benefit. The annual benefit under this Section 2.3 is the Normal Retirement Benefit amount described in Section 2.1.1.

2.3.2 Distribution of Benefit. The Bank shall distribute the benefit to the Executive in twelve (12) equal monthly installments commencing on the first day of the month following Normal Retirement Age. The annual benefit shall be distributed to the Executive for ten (10) years.

2.4 Restriction on Commencement of Distributions. Notwithstanding any provision of this Agreement to the contrary, if the Executive is considered a Specified Employee, the provisions of this Section 2.4 shall govern all distributions hereunder. If benefit distributions which would otherwise be made to the Executive due to Separation from Service are limited because the Executive is a Specified Employee, then such distributions shall not be made during the first six (6) months following Separation from Service. Rather, any distribution which would otherwise be paid to the Executive during such period shall be accumulated and paid to the Executive in a lump sum on the first day of the seventh month following Separation from Service. All subsequent distributions shall be paid in the manner specified.

2.5 Distributions Upon Taxation of Amounts Deferred. If, pursuant to Code Section 409A, the Federal Insurance Contributions Act or other state, local or foreign tax, the Executive becomes subject to tax on the amounts deferred hereunder, then the Bank may make a limited distribution to the Executive in a manner that conforms to the requirements of Code section 409A. Any such distribution will decrease the Executive's benefits distributable under this Agreement.

2.7 Change in Form or Timing of Distributions. For distribution of benefits under this Article 2, the Executive and the Bank may, subject to the terms of Section 8.1, amend this Agreement to delay the timing or change the form of distributions. Any such amendment:

a) may not accelerate the time or schedule of any distribution, except as provided in Code Section 409A;

b) must, for benefits distributable under Sections 2.1, 2.2 and 2.3, be made at least twelve (12) months prior to the first scheduled distribution

c) must, for benefits distributable under Sections 2.1, 2.2 and 2.3, delay the commencement of distributions for a minimum of five (5) years from the date the first distribution was originally scheduled to be made; and

d) must take effect not less than twelve (12) months after the amendment is made.

**Article 3**
**Distribution at Death**

3.1 Death During Active Service. If the Executive dies prior to Separation from Service, the Bank shall distribute to the Beneficiary the benefit described in this Section 3.1. This benefit shall be distributed in lieu of any benefit under Article 2.

3.1.1 Amount of Benefit. The annual benefit under this Section 3.1 is the Normal Retirement Benefit amount described in Section 2.1.1.

3.1.2 Distribution of Benefit. The Bank shall distribute the annual benefit to the Beneficiary in twelve (12) equal monthly installments for ten (10) years commencing on the first day of the fourth month following the Executive's death. The Beneficiary shall be required to provide to the Bank the Executive's death certificate.

3.2 Death During Distribution of a Benefit. If the Executive dies after any benefit distributions have commenced under this Agreement but before receiving all such distributions, the Bank shall distribute to the Beneficiary the remaining benefits at the same time and in the same amounts they would have been distributed to the Executive had the Executive survived.

3.3 Death Before Benefit Distributions Commence. If the Executive is entitled to benefit distributions under this Agreement but dies prior to the date that commencement of said benefit distributions are scheduled to be made under this Agreement, the Bank shall distribute to the Beneficiary the same benefits to which the Executive was entitled prior to death, except that the benefit distributions shall be paid in the manner specified in Section 3.1.2 and shall commence on the first day of the fourth month following the Executive's death.

## Article 4
## Beneficiaries

4.1 In General. The Executive shall have the right, at any time, to designate a Beneficiary to receive any benefit distributions under this Agreement upon the death of the Executive. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designated under any other plan of the Bank in which the Executive participates.

4.2 Designation. The Executive shall designate a Beneficiary by completing and signing the Beneficiary Designation Form and delivering it to the Plan Administrator or its designated agent. If the Executive names someone other than the Executive's spouse as a Beneficiary, the Plan Administrator may, in its sole discretion, determine that spousal consent is required to be provided in a form designated by the Plan Administrator, executed by the Executive's spouse and returned to the Plan Administrator. The Executive's beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator prior to the Executive's death.

4.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received, accepted and acknowledged in writing by the Plan Administrator or its designated agent.

4.4 No Beneficiary Designation. If the Executive dies without a valid beneficiary designation, or if all designated Beneficiaries predecease the Executive, then the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, any benefit shall be paid to the Executive's estate.

4.5 Facility of Distribution. If the Plan Administrator determines in its discretion that a benefit is to be distributed to a minor, to a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Plan Administrator may direct distribution of such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person. The Plan Administrator may require proof of incompetence, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Any distribution of a benefit shall be a distribution for the account of the Executive and the Beneficiary, as the case may be, and shall completely discharge any liability under this Agreement for such distribution amount.

## Article 5
## General Limitations

5.1 Termination for Cause. Notwithstanding any provision of this Agreement to the contrary, the Bank shall not distribute any benefit under this Agreement if the Executive's employment with the Bank is terminated by the Bank or an applicable regulator due to a Termination for Cause.

5.2 Suicide or Misstatement. No benefit shall be distributed if the Executive commits suicide within two (2) years after the Effective Date, or if an insurance company which issued a life insurance policy covering the Executive and owned by the Bank denies coverage (i) for material misstatements of fact made by the Executive on an application for such life insurance, or (ii) for any other reason.

5.3 Removal. Notwithstanding any provision of this Agreement to the contrary, the Bank shall not distribute any benefit under this Agreement if the Executive is subject to a final removal or prohibition order issued by an appropriate federal banking agency pursuant to Section 8(e) of the Federal Deposit Insurance Act. Notwithstanding anything herein to the contrary, any payments made to the Executive pursuant to this Agreement, or otherwise, shall be subject to and conditioned upon compliance with 12 U.S.C. 1828 and FDIC Regulation 12 CFR Part 359, Golden Parachute Indemnification Payments and any other regulations or guidance promulgated thereunder.

## Article 6
## Administration of Agreement

6.1 Plan Administrator Duties. The Plan Administrator shall administer this Agreement according to its express terms and shall also have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Agreement and (ii) decide or resolve any and all questions, including interpretations of this Agreement, as may arise in connection with this Agreement to the extent the exercise of such discretion and authority does not conflict with Code Section 409A.

6.2 Agents. In the administration of this Agreement, the Plan Administrator may employ agents and delegate to them such administrative duties as the Plan Administrator sees fit, including acting through a duly appointed representative, and may from time to time consult with counsel who may be counsel to the Bank.

6.3 Binding Effect of Decisions. Any decision or action of the Plan Administrator with respect to any question arising out of or in connection with the administration, interpretation or application of this Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in this Agreement.

6.4 Indemnity of Plan Administrator. The Bank shall indemnify and hold harmless the Plan Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator.

6.5 Bank Information. To enable the Plan Administrator to perform its functions, the Bank shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the Executive's death or Separation from Service, and such other pertinent information as the Plan Administrator may reasonably require.

6.6 Annual Statement. The Plan Administrator shall provide to the Executive, within one hundred twenty (120) days after the end of each Plan Year, a statement setting forth the benefits to be distributed under this Agreement.

## Article 7
## Claims And Review Procedures

7.1 Claims Procedure. An Executive or Beneficiary ("claimant") who has not received benefits under this Agreement that he or she believes should be distributed shall make a claim for such benefits as follows:

7.1.1 Initiation — Written Claim. The claimant initiates a claim by submitting to the Plan Administrator a written claim for the benefits. If such a claim relates to the contents of a notice received by the claimant, the claim must be made within sixty (60) days after such notice was received by the claimant. All other claims must be made within one hundred eighty (180) days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the claimant.

7.1.2 Timing of Plan Administrator Response. The Plan Administrator shall respond to such claimant within ninety (90) days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional ninety (90) days by notifying the claimant in writing, prior to the end of the initial ninety (90) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

7.1.3 Notice of Decision. If the Plan Administrator denies part or all of the claim, the Plan Administrator shall notify the claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

(a) The specific reasons for the denial;

(b) A reference to the specific provisions of this Agreement on which the denial is based;

(c) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed;

(d) An explanation of this Agreement's review procedures and the time limits applicable to such procedures; and

(e) A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

7.2 Review Procedure. If the Plan Administrator denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Plan Administrator of the denial as follows:

7.2.1 Initiation — Written Request. To initiate the review, the claimant, within sixty (60) days after receiving the Plan Administrator's notice of denial, must file with the Plan Administrator a written request for review.

7.2.2 Additional Submissions — Information Access. The claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Plan Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

7.2.3 Considerations on Review. In considering the review, the Plan Administrator shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

7.2.4 Timing of Plan Administrator Response. The Plan Administrator shall respond in writing to such claimant within sixty (60) days after receiving the request for review. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional sixty (60) days by notifying the claimant in writing, prior to the end of the initial sixty (60) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

7.2.5 Notice of Decision. The Plan Administrator shall notify the claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

(a) The specific reasons for the denial;

(b) A reference to the specific provisions of this Agreement on which the denial is based;

(c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits; and

(d) A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

## Article 8
## Amendments and Termination

8.1 Amendments. This Agreement may be amended only by a written agreement signed by the Bank and the Executive. However, the Bank may unilaterally amend this Agreement to conform with written directives to the Bank from its auditors or banking regulators or to comply with legislative changes or tax law, including without limitation Code Section 409A.

8.2 Plan Termination Generally. This Agreement may be terminated only by a written agreement signed by the Bank and the Executive. The benefit shall be the entire amount accrued by the Bank with respect to the Bank's obligations hereunder as of the date this Agreement is terminated. Except as provided in Section 8.3, the termination of this Agreement shall not cause a distribution of benefits under this Agreement. Rather, upon such termination benefit distributions will be made at the earliest distribution event permitted under Article 2 or Article 3.

8.3 Plan Terminations Under Code Section 409A. Notwithstanding anything to the contrary in Section 8.2, if the Bank terminates this Agreement in the following circumstances:

a) Within thirty (30) days before or twelve (12) months after a Change in Control, provided that all distributions are made no later than twelve (12) months following such termination of this Agreement and further provided that all the Bank's arrangements which are substantially similar to this Agreement are terminated so the Executive and all participants in the similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of such termination;

b) Upon the Bank's dissolution or with the approval of a bankruptcy court provided that the amounts deferred under this Agreement are included in the Executive's gross income in the latest of (i) the calendar year in which this Agreement terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the distribution is administratively practical; or

c) Upon the Bank's termination of this and all other arrangements that would be aggregated with this Agreement pursuant to Treasury Regulations Section 1.409A-1(c) if the Executive participated in such arrangements ("Similar Arrangements"), provided that (i) the termination and liquidation does not occur proximate to a downturn in the financial health of the Bank, (ii) all termination distributions are made no earlier than twelve (12) months and no later than twenty-four (24) months following such termination, and (iii) the Bank does not adopt any new arrangement that would be a Similar Arrangement for a minimum of three (3) years following the date the Bank takes all necessary action to irrevocably terminate and liquidate the Agreement;

the Bank may distribute the entire amount accrued by the Bank with respect to the Bank's obligations hereunder, determined as of the date of the termination of this Agreement, to the Executive in a lump sum subject to the above terms.

## Article 9
## Miscellaneous

9.1 Binding Effect. This Agreement shall bind the Executive and the Bank and their beneficiaries, survivors, executors, administrators and transferees.

9.2 No Guarantee of Employment. This Agreement is not a contract for employment. It does not give the Executive the right to remain as an employee of the Bank nor interfere with the Bank's right to discharge the Executive. It does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

9.3 Non-Transferability. Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached or encumbered in any manner.

9.4 Tax Withholding and Reporting. The Bank shall withhold any taxes that are required to be withheld, including but not limited to taxes owed under Code Section 409A from the benefits provided under this Agreement. The Executive acknowledges that the Bank's sole liability regarding taxes is to forward any amounts withheld to the appropriate taxing authorities. The Bank shall satisfy all applicable reporting requirements, including those under Code Section 409A.

9.5 Applicable Law. This Agreement and all rights hereunder shall be governed by the laws of the State of California, except to the extent preempted by the laws of the United States of America.

9.6 Unfunded Arrangement. The Executive and the Beneficiary are general unsecured creditors of the Bank for the distribution of benefits under this Agreement. The benefits represent the mere promise by the Bank to distribute such benefits. The rights to benefits are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors. Any insurance on the Executive's life or other informal funding asset is a general asset of the Bank to which the Executive and Beneficiary have no preferred or secured claim.

9.7 Reorganization. The Bank shall not merge or consolidate into or with another bank, or reorganize, or sell substantially all of its assets to another bank, firm or person unless such succeeding or continuing bank, firm or person agrees to assume and discharge the obligations of the Bank under this Agreement. Upon the occurrence of such an event, the term "Bank" as used in this Agreement shall be deemed to refer to the successor or survivor entity.

9.8 Entire Agreement. This Agreement constitutes the entire agreement between the Bank and the Executive as to the subject matter hereof. No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein.

9.9 Interpretation. Wherever the fulfillment of the intent and purpose of this Agreement requires and the context will permit, the use of the masculine gender includes the feminine and use of the singular includes the plural.

9.10 Alternative Action. In the event it shall become impossible for the Bank or the Plan Administrator to perform any act required by this Agreement due to regulatory or other constraints, the Bank or Plan Administrator may perform such alternative act as most nearly carries out the intent and purpose of this Agreement and is in the best interests of the Bank, provided that such alternative act does not violate Code Section 409A.

9.11 Headings. Article and section headings are for convenient reference only and shall not control or affect the meaning or construction of any provision herein.

9.12 Validity. If any provision of this Agreement shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Agreement shall be construed and enforced as if such illegal or invalid provision had never been included herein.

9.13 Notice. Any notice or filing required or permitted to be given to the Bank or Plan Administrator under this Agreement shall be sufficient if in writing and hand-delivered or sent by registered or certified mail to the address below:

Five Star Bank
Attention: Plan Administrator
6810 Five Star Bank Boulevard
Rocklin, CA 95677

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to the Executive under this Agreement shall be sufficient if in writing and hand-delivered or sent by mail to the last known address of the Executive.

9.14 Deduction Limitation on Benefit Payments. If the Bank reasonably anticipates that the Bank's deduction with respect to any distribution under this Agreement would be limited or eliminated by application of Code Section 162(m), then to the extent deemed necessary by the Bank to ensure that the entire amount of any distribution from this Agreement is deductible, the Bank may delay payment of any amount that would otherwise be distributed under this Agreement. The delayed amounts shall be distributed to the Executive (or the Beneficiary in the event of the Executive's death) at the earliest date the Bank reasonably anticipates that the deduction of the payment of the amount will not be limited or eliminated by application of Code Section 162(m).

9.15 Compliance with Section 409A. This Agreement shall be interpreted and administered consistent with Code Section 409A.

IN WITNESS WHEREOF, the Executive and a duly authorized representative of the Bank have signed this Agreement.

| | |
|---|---|
| EXECUTIVE | BANK |
| /s/ James E. Beckwith | By: /s/ Michael R. Stodden |
| James Beckwith | Title: Chairman of Board |

{ } New Designation
{ } Change in Designation

I, James Beckwith, designate the following as Beneficiary under this Agreement:

| | |
|---|---|
| Primary:<br>_______________________________________________<br>_______________________________________________ | ____<br>____ |
| Contingent:<br>_______________________________________________<br>_______________________________________________ | ____<br>____ |

**Notes:**

- **Please PRINT CLEARLY or TYPE the names of the beneficiaries.**
- **To name a trust as Beneficiary, please provide the name of the trustee(s) and the exact name and date of the trust agreement.**
- **To name your estate as Beneficiary, please write "Estate of [your name]"**
- **Be aware that none of the contingent beneficiaries will receive anything unless ALL of the primary beneficiaries predecease you.**

I understand that I may change these beneficiary designations by delivering a new written designation to the Plan Administrator, which shall be effective only upon receipt and acknowledgment by the Plan Administrator prior to my death. I further understand that the designations will be automatically revoked if the Beneficiary predeceases me, or, if I have named my spouse as Beneficiary and our marriage is subsequently dissolved.

Name: ___________________________________

Signature ___________________________________ Date: ___________________________________

**SPOUSAL CONSENT (Required if someone other than spouse is named Beneficiary and Plan Administrator requests):**

I consent to the beneficiary designation above, and acknowledge that if I am named Beneficiary and our marriage is subsequently dissolved, the designation will be automatically revoked.

Spouse Name: ___________________________________

Signature: ___________________________________ Date: ___________________________________

Received by the Plan Administrator this ___ day of _______, 200______

By: ___________________________________

Title: ___________________________________

**This document is provided to assist your legal counsel in documenting your specific arrangement. The laws of the various states may differ considerably, and this specimen is for general information only. It is not a form to be signed, nor is it to be construed as legal advice. Failure to accurately document your arrangement could result in significant losses, whether from claims of those participating in the arrangement, from the heirs and beneficiaries of participants, or from regulatory agencies such as the Internal Revenue Service, the Department of Labor, or bank examiners. License is hereby granted to your legal counsel to use these materials in documenting solely your arrangement.**

**In general, if your bank is subject to SEC regulation, implementation of this or any other executive or director compensation program may trigger rules requiring certain disclosures on Form 8-K within four days of implementing the program. Consult with your SEC attorney, if applicable, to determine your responsibilities under the disclosure rules.**

**IMPORTANT NOTICE ON CODE SECTION 409A COMPLIANCE**

It is critical that you consult with your legal and tax advisors to determine the impact of Internal Revenue Code Section 409A to your particular situation. On April 10, 2007 the Treasury Department issued final regulations implementing the requirements of Section 409A which apply to nonqualified deferred compensation arrangements. The regulations will be effective on January 1, 2008.

**FIRST AMENDMENT TO FIVE STAR BANK**

**SALARY CONTINUATION AGREEMENT**

**THIS FIRST AMENDMENT FIVE STAR BANK SALARY CONTINUATION AGREEMENT** (this "**First Amendment**") is made as of the 31st day of December 2008, by and between FIVE STAR BANK, located in Rocklin California (the "Bank") and JAMES BECKWITH (the "Executive"), with reference to the following facts:

A. Effective September 1, 2007, the Bank and Executive entered into the FIVE STAR BANK SALARY CONTINUATION AGREEMENT (the "Agreement").

B. The Parties desire to amend the Agreement to conform to the requirements of Internal Revenue Code section 409A.

NOW, THEREFORE, the Parties agree to amend and modify the Agreement set upon the terms and subject to the conditions of this First Amendment.

1. Section 9.14., Deduction Limitation on Benefit Payments is amended and restated in its entirety to read as follows:

> 9.14. Deduction Limitations on Benefit Payments. Subject to the requirements of Section 2.7, above, if the Bank reasonably anticipates that the Bank's deduction with respect to any distribution under this Agreement would be limited or eliminated by application of Code Section 162(m), then to the extent deemed necessary by the Bank to ensure that the entire amount of any distribution from this Agreement is deductible, the Bank may delay payment of any amount that would otherwise be distributed under this Agreement. The delayed amounts shall be distributed to the Executive (or the Beneficiary in the event of the Executive's death) at the earliest date permitted under Section 2.7 that the bank reasonably anticipates that the deduction of the payment of the amount will not be limited or eliminated by application of Code Section 162(m).

2. To the extend not amended hereby, the provisions of the FIVE STAR BANK SALARY CONTINUATION AGREEMENT shall remain in full force and effect.

IN WITNESS WHEREOF, the Executive and the Bank have entered into this FIRST AMENDMENT effective as of the date first set forth above.

EXECUTIVE:

/s/ James Beckwith

JAMES BECKWITH

BANK:

FIVE STAR BANK

| | |
|---|---|
| By | /s/ Michael R. Stodden |
| Name | Michael R. Stodden |
| Title | Chairman 12/31/09 |

**SECOND AMENDMENT**
**TO THE**
**FIVE STAR BANK**
**SALARY CONTINUATION AGREEMENT**

**THIS SECOND AMENDMENT** is made by Five Star Bank (the "Bank"), a banking corporation organized and existing under the laws of the State of California, and James Beckwith (the "Executive"), this 1st day of July, 2014.

**RECITALS:**

**WHEREAS,** the Five Star Bank Salary Continuation Agreement (the "Plan") was adopted on September 1. 2007; and amended on December 31, 2008; and

**WHEREAS,** pursuant to Section 8.1 of the Plan, the Bank and the Executive may amend the Plan by written mutual agreement; and

**WHEREAS,** the parties desire to amend the Plan to clarify the Executive's Normal Retirement Benefit under Section 2.1;

**NOW, THEREFORE,** the parties hereby amend the Plan as follows:

*Section 2.1.1 shall be deleted in its entirety and replaced with the following:*

2.1.1 Amount of Benefit. The annual benefit under this Section 2.1 is One Hundred Seventy-Five Thousand Dollars ($175,000.00).

Except as otherwise amended by the First Amendment and this Amendment, all provisions of the Plan shall remain in full force and effect and the Plan, First Amendment, and this Amendment shall be construed together and considered one and the same agreement.

**IN WITNESS WHEREOF,** the parties execute this Amendment as of the date first written above.

| **EXECUTIVE:** | **FIVE STAR BANK:** |
|---|---|
| /s/ James Beckwith | By: /s/ Michael R. Stodden |
| James Beckwith | Its: CHAIRMAN |

**EXHIBIT 31.1**

**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**

I, James 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.

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| May 12, 2022 | */s/ James Beckwith* |
| Date | James Beckwith<br>President & Chief Executive Officer |

**EXHIBIT 31.2**

**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**

I, Heather 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.

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| May 12, 2022 | */s/ Heather Luck* |
| Date | Heather Luck<br>Senior Vice President & Chief Financial Officer |

**EXHIBIT 32.1**

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

In connection with the Quarterly Report on Form 10-Q of Five Star Bancorp (the “Registrant”) for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James Beckwith, President & Chief Executive Officer of the Registrant, 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.

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| May 12, 2022 | */s/ James Beckwith* |
| Date | James Beckwith<br>President & Chief Executive Officer |

**EXHIBIT 32.2**

**FIVE STAR BANCORP**

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

In connection with the Quarterly Report on Form 10-Q of Five Star Bancorp (the "Registrant") for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Heather Luck, Senior Vice President & Chief Financial Officer of the Registrant, 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 12, 2022 | */s/ Heather Luck* |
|---|---|
| Date | Heather Luck<br>Senior Vice President & Chief Financial Officer |