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 June 30, 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 August 4, 2022, there were 17,245,983 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 ("COVID-19");
- 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
(Unaudited)
(In thousands, except share data)

	June 30, 2022	December 31, 2021
ASSETS		
Cash and due from financial institutions	$ 66,423	$ 136,074
Interest-bearing deposits in banks	204,335	289,255
Cash and cash equivalents	270,758	425,329
Time deposits in banks	10,841	14,464
Securities available-for-sale, at fair value	122,426	148,807
Securities held-to-maturity, at amortized cost (fair value of $4,332 and $5,197 at June 30, 2022 and December 31, 2021, respectively)	4,477	4,946
Loans held for sale	12,985	10,671
Loans held for investment	2,380,511	1,934,460
Allowance for loan losses	(25,786)	(23,243)
Loans held for investment, net of allowance for loan losses	2,354,725	1,911,217
Federal Home Loan Bank of San Francisco (“FHLB”) stock	10,890	6,723
Operating leases, right-of-use asset ("ROUA")	4,472	—
Premises and equipment, net	1,768	1,773
Bank-owned life insurance ("BOLI"), net	14,444	11,203
Interest receivable and other assets	28,285	21,628
	$ 2,836,071	$ 2,556,761
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits		
Non-interest-bearing	$ 1,006,066	$ 902,118
Interest-bearing	1,495,245	1,383,772
Total deposits	2,501,311	2,285,890
Subordinated notes, net	28,420	28,386
FHLB advances	60,000	—
Operating lease liability	4,739	—
Interest payable and other liabilities	8,401	7,439
Total liabilities	2,602,871	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 June 30, 2022 and December 31, 2021	—	—
Common stock, no par value; 100,000,000 shares authorized; 17,245,983 shares issued and outstanding at June 30, 2022; 17,224,848 shares issued and outstanding at December 31, 2021	219,023	218,444
Retained earnings	26,924	17,168
Accumulated other comprehensive loss, net	(12,747)	(566)
Total shareholders’ equity	233,200	235,046
	$ 2,836,071	$ 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest and fee income				
Loans, including fees	$ 24,841	$ 18,626	$ 46,932	$ 37,239
Taxable securities	423	338	813	597
Nontaxable securities	179	219	356	433
Interest-bearing deposits in other banks	518	125	710	229
	25,961	19,308	48,811	38,498
Interest expense				
Deposits	1,021	568	1,566	1,267
FHLB advances	5	—	5	—
Subordinated notes	444	444	887	887
	1,470	1,012	2,458	2,154
Net interest income	24,491	18,296	46,353	36,344
Provision for loan losses	2,250	—	3,200	200
Net interest income after provision for loan losses	22,241	18,296	43,153	36,144
Non-interest income				
Service charges on deposit accounts	130	106	238	196
Net gain on sale of securities available-for-sale	—	92	5	274
Gain on sale of loans	831	1,091	1,749	2,022
Loan-related fees	795	369	1,412	629
FHLB stock dividends	99	92	201	170
Earnings on BOLI	101	60	191	112
Other	41	36	386	59
	1,997	1,846	4,182	3,462
Non-interest expense				
Salaries and employee benefits	5,553	4,939	11,228	9,636
Occupancy and equipment	513	441	1,033	892
Data processing and software	739	598	1,455	1,227
Federal Deposit Insurance Corporation ("FDIC") insurance	245	150	410	430
Professional services	568	1,311	1,122	2,843
Advertising and promotional	484	265	828	435
Loan-related expenses	389	218	667	447
Other operating expenses	1,714	1,658	3,037	2,474
	10,205	9,580	19,780	18,384
Income before provision for income taxes	14,033	10,562	27,555	21,222
Provision for income taxes	4,080	734	7,740	1,116
Net income	$ 9,953	$ 9,828	$ 19,815	$ 20,106
Basic earnings per common share	$ 0.58	$ 0.67	$ 1.15	$ 1.57
Diluted earnings per common share	$ 0.58	$ 0.67	$ 1.15	$ 1.57

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	$ 9,953	$ 9,828	$ 19,815	$ 20,106
Net unrealized holding (loss) gain on securities available-for-sale during the period	(7,849)	903	(17,287)	(711)
Reclassification adjustment for net realized gains included in net income	—	(92)	(5)	(274)
Income tax (benefit) expense related to other comprehensive loss	(2,320)	133	(5,111)	72
Other comprehensive (loss) income	(5,529)	678	(12,181)	(1,057)
Total comprehensive income	$ 4,424	$ 10,506	$ 7,634	$ 19,049

See accompanying notes to unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Three months ended June 30, 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 June 30, 2021					
Balance at March 31, 2021	11,007,005	$ 110,144	$ 21,623	$ (390)	$ 131,377
Net income	—	—	9,828	—	9,828
Other comprehensive income	—	—	—	678	678
Stock offering	6,054,750	111,243	—	—	111,243
Stock issued under stock award plans	123,253	—	—	—	—
Stock compensation expense	—	150	—	—	150
Director stock compensation expense	40,500	810	—	—	810
Reclassification of retained deficit	—	(4,321)	4,321	—	—
Cash dividends paid ($3.25 per share)	—	—	(35,772)	—	(35,772)
Balance at June 30, 2021	17,225,508	$ 218,026	$ —	$ 288	$ 218,314
Three months ended June 30, 2022					
Balance at March 31, 2022	17,246,199	$ 218,721	$ 19,558	$ (7,218)	$ 231,061
Net income	—	—	9,953	—	9,953
Other comprehensive loss	—	—	—	(5,529)	(5,529)
Stock issued under stock award plans	1,438	—	—	—	—
Stock compensation expense	—	161	—	—	161
Director stock compensation expense	—	141	—	—	141
Stock forfeitures	(1,654)	—	—	—	—
Cash dividends paid ($0.15 per share)	—	—	(2,587)	—	(2,587)
Balance at June 30, 2022	17,245,983	$ 219,023	$ 26,924	$ (12,747)	$ 233,200

See accompanying notes to unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Six months ended June 30, 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			
Six months ended June 30, 2021					
Balance at December 31, 2020	11,000,273	$ 110,082	$ 22,348	$ 1,345	$ 133,775
Net income	—	—	20,106	—	20,106
Other comprehensive loss	—	—	—	(1,057)	(1,057)
Stock offering	6,054,750	111,243	—	—	111,243
Stock issued under stock award plans	132,707	—	—	—	—
Stock compensation expense	—	212	—	—	212
Director stock compensation expense	40,500	810	—	—	810
Stock forfeitures	(2,722)	—	—	—	—
Reclassification of retained deficit	—	(4,321)	4,321	—	—
Cash dividends paid ($4.25 per share)	—	—	(46,775)	—	(46,775)
Balance at June 30, 2021	17,225,508	$ 218,026	$ —	$ 288	$ 218,314
Six months ended June 30, 2022					
Balance at December 31, 2021	17,224,848	$ 218,444	$ 17,168	$ (566)	$ 235,046
Net income	—	—	19,815	—	19,815
Other comprehensive loss	—	—	—	(12,181)	(12,181)
Stock issued under stock award plans	23,639	—	—	—	—
Stock compensation expense	—	330	—	—	330
Director stock compensation expense	—	249	—	—	249
Stock forfeitures	(2,504)	—	—	—	—
Cumulative effect of adoption of Acounting Standards Codification ("ASC") 842 on retained earnings	—	—	68	—	68
Cash dividends paid ($0.75 per share)	—	—	(10,127)	—	(10,127)
Balance at June 30, 2022	17,245,983	$ 219,023	$ 26,924	$ (12,747)	$ 233,200

See accompanying notes to unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 30, 2022 and 2021
(Unaudited)
(In thousands)

	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash flows from operating activities:		
Net income	$ 19,815	$ 20,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,200	200
Loans originated for sale	(36,964)	(22,355)
Gain on sale of loans	(1,749)	(2,022)
Proceeds from sale of loans	25,728	22,037
Net gain on sale of securities available-for-sale	(5)	(274)
Earnings on BOLI	(191)	(112)
Stock compensation expense	330	212
Director stock compensation expense	249	810
Change in deferred loan fees	158	843
Amortization and accretion of security premiums and discounts	659	736
Amortization of subordinated notes issuance costs	34	27
Depreciation and amortization	316	265
Decrease in operating lease liability	(482)	—
Amortization of operating lease ROUA	496	—
Deferred taxes	—	(4,727)
Net changes in:		
Interest receivable and other assets	(1,557)	(1,223)
Interest payable and other liabilities	1,295	7,246
Net cash provided by operating activities	11,332	21,769
Cash flows from investing activities:		
Proceeds from sale of securities available-for-sale	1,623	16,182
Maturities, prepayments, and calls of securities available-for-sale	8,977	7,822
Purchases of securities available-for-sale	(1,641)	(69,070)
Net change in time deposits in banks	3,623	4,254
Loan originations, net of repayments	(436,195)	(78,562)
Purchase of premises and equipment	(311)	(245)
Purchase of FHLB stock	(4,223)	(491)
Purchase of BOLI	(3,050)	(2,300)
Net cash used in investing activities	(431,197)	(122,410)
Cash flows from financing activities:		
Net change in deposits	215,421	282,284
Proceeds from issuance of stock	—	111,243
FHLB advances	60,000	—
Cash dividends paid	(10,127)	(46,775)
Net cash provided by financing activities	265,294	346,752
Net change in cash and cash equivalents	(154,571)	246,111
Cash and cash equivalents at beginning of period	425,329	290,493
Cash and cash equivalents at end of period	$ 270,758	$ 536,604
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,345	$ 2,217
Income taxes paid	$ 5,200	$ 1,050
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 on securities	$ (17,287)	$ (711)
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 one loan production office in 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.

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 and six months ended June 30, 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		Six months ended	
(in thousands, except share and per share data)	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income	$ 9,953	$ 9,828	$ 19,815	$ 20,106
Weighted average basic common shares outstanding	17,125,715	14,650,208	17,114,169	12,824,125
Add: Dilutive effects of assumed vesting of restricted stock	23,734	17,596	42,872	8,841
Weighted average diluted common shares outstanding	17,149,449	14,667,804	17,157,041	12,832,966
Earnings per common share:				
Basic EPS	$ 0.58	$ 0.67	$ 1.15	$ 1.57
Diluted EPS	$ 0.58	$ 0.67	$ 1.15	$ 1.57

During the three and six months ended June 30, 2022 and 2021, there were no outstanding stock options. Additionally, the Company did not have any anti-dilutive shares at June 30, 2022.

For the three and six months ended June 30, 2021, pro forma EPS is calculated by applying a C Corporation statutory 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 and six months ended June 30, 2022, pro forma EPS is actual EPS given that the Company was a C Corporation for the entire three- and six-month periods. The following reconciliation table provides a detailed calculation of pro forma EPS:

	Three months ended		Six months ended	
(in thousands, except share and per share data)	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income before provision for income taxes - GAAP	$ 14,033	$ 10,562	$ 27,555	$ 21,222
Less: Actual/pro forma provision for income taxes	4,080	3,122	7,740	6,273
Actual/pro forma net income	$ 9,953	$ 7,440	$ 19,815	$ 14,949
Weighted average basic common shares outstanding	17,125,715	14,650,208	17,114,169	12,824,125
Add: Dilutive effects of assumed vesting of restricted stock	23,734	17,596	42,872	8,841
Weighted average diluted common shares outstanding	17,149,449	14,667,804	17,157,041	12,832,966
Earnings per common share:				
Basic EPS (actual/pro forma)	$ 0.58	$ 0.51	$ 1.15	$ 1.17
Diluted EPS (actual/pro forma)	$ 0.58	$ 0.51	$ 1.15	$ 1.16

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 have been adopted or 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 indicate 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)*. Among other things, ASU 2016-02 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 on 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 these ASUs and continues to monitor guidance for reference rate reform from the 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]
June 30, 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	$ 122,426	$ —	$ 122,426	$ —	OCI
Derivatives – interest rate swap	40	—	40	—	NI
Liabilities:					
Derivatives – interest rate swap	40	—	40	—	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 inputs) are used to determine the fair value of available-for-sale securities. If quoted market prices are not available, management obtains pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, probability of default, loss severity, and credit spreads (Level 2 inputs). Level 2 securities include U.S. agencies' or government-sponsored enterprises' ("GSEs") debt securities, mortgage-backed securities, government agency issued bonds, privately issued collateralized mortgage obligations, and corporate bonds. As of June 30, 2022 and December 31, 2021, there were no Level 1 or Level 3 available-for-sale securities. The discounted cash flow model is used to determine the fair value of held-to-maturity 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 June 30, 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 June 30, 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.

	June 30, 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	$ 270,758	$ 270,758	Level 1	$ 425,329	$ 425,329	Level 1
Time deposits in banks	10,841	10,841	Level 1	14,464	14,464	Level 1
Securities available-for-sale	122,426	122,426	Level 2	148,807	148,807	Level 2
Securities held-to-maturity	4,477	4,332	Level 3	4,946	5,197	Level 3
Loans held for sale	12,985	13,616	Level 2	10,671	11,217	Level 2
Loans held for investment, net of allowance for loan losses	2,354,725	2,215,450	Level 3	1,911,217	1,893,431	Level 3
FHLB stock and other investments	16,636	N/A	N/A	12,464	N/A	N/A
Interest receivable	6,260	6,260	Level 2	5,332	5,332	Level 2
Interest rate swap	40	40	Level 2	92	92	Level 2
Financial liabilities:						
Deposits	2,501,311	2,300,572	Level 2	2,285,890	2,210,555	Level 2
Interest payable	249	249	Level 2	23	23	Level 2
Interest rate swap	40	40	Level 2	92	92	Level 2
Subordinated notes	28,420	28,420	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 June 30, 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, net of allowance for loan losses: For variable rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, which use interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness without considering widening credit spreads due to market illiquidity, which approximates the exit price notion. The allowance for 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, as represented by their carrying amount. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow analysis that uses interest rates being offered at each reporting date by the Company for certificates with similar remaining maturities. For variable rate time deposits, cost approximates fair value.

Subordinated Notes: The fair value is estimated by discounting the future cash flow using the current three-month 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 June 30, 2022 and December 31, 2021 is presented below.

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2022				
Obligations of states and political subdivisions	$ 4,477	$ —	$ (145)	$ 4,332
Total held-to-maturity	$ 4,477	$ —	$ (145)	$ 4,332
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 June 30, 2022 and December 31, 2021 is presented below.

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2022				
U.S. government agencies	$ 17,114	$ 86	$ (242)	$ 16,958
Mortgage-backed securities	76,442	3	(10,369)	66,076
Obligations of states and political subdivisions	44,490	9	(7,335)	37,164
Collateralized mortgage obligations	475	—	(27)	448
Corporate bonds	2,000	—	(220)	1,780
Total available-for-sale	$ 140,521	$ 98	$ (18,193)	$ 122,426
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 June 30, 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.

	June 30, 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	$ 447	$ 433	$ 504	$ 508	$ 491	$ 516	$ —	$ —
After one but within five years	1,115	1,079	—	—	951	999	507	522
After five years through ten years	1,590	1,538	4,330	3,888	3,504	3,682	3,697	3,748
After ten years	1,325	1,282	39,656	32,768	—	—	40,528	40,867
Investment securities not due at a single maturity date:								
U.S. government agencies	—	—	17,114	16,958	—	—	19,824	19,682
Mortgage-backed securities	—	—	76,442	66,076	—	—	82,517	81,513
Collateralized mortgage obligations	—	—	475	448	—	—	537	540
Corporate bonds	—	—	2,000	1,780	—	—	2,000	1,935
Total	$ 4,477	$ 4,332	$ 140,521	$ 122,426	$ 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 June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Available-for-sale:				
Sales proceeds	$ —	$ 4,726	$ 1,623	$ 16,182
Gross realized gains	—	92	5	274

Pledged investment securities are shown in the following table:

(in thousands)	June 30, 2022	December 31, 2021
Pledged to the State of California:		
Securing deposits of public funds and borrowings	$ 21,667	$ 63,363
Total pledged investment securities	$ 21,667	$ 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 June 30, 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
June 30, 2022						
U.S. government agencies	$ 2,105	$ (115)	$ 11,556	$ (127)	$ 13,661	$ (242)
Mortgage-backed securities	55,937	(8,671)	9,723	(1,698)	65,660	(10,369)
Obligations of states and political subdivisions	34,470	(7,029)	1,648	(306)	36,118	(7,335)
Collateralized mortgaged obligations	448	(27)	—	—	448	(27)
Corporate bonds	1,780	(220)	—	—	1,780	(220)
Total temporarily impaired securities	$ 94,740	$ (16,062)	$ 22,927	$ (2,131)	$ 117,667	$ (18,193)
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 151 and 91 available-for-sale securities in unrealized loss positions at June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022, the investment portfolio included 24 investment securities that had been in a continuous loss position for twelve months or more and 127 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 June 30, 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 the Government National Mortgage Association ("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 $10.9 million and $6.7 million of FHLB stock at June 30, 2022 and December 31, 2021, respectively. The carrying amounts of these investments are reasonable estimates of fair value because the securities are restricted to member banks and do not have a readily determinable market value. Based on management’s analysis of the FHLB’s financial condition and certain qualitative factors, management determined that the FHLB stock was not impaired at June 30, 2022 and December 31, 2021. On April 28, 2022, FHLB announced a cash dividend for the first quarter of 2022 at an annualized dividend rate of 6.00%, which was paid on May 11, 2022. Cash dividends received on FHLB capital stock amounted to $0.1 million for the three months ended June 30, 2022 and 2021 and $0.2 million for the six months ended June 30, 2022 and 2021, and 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 June 30, 2022 and December 31, 2021, the carrying value of total loans held for investment amounted to $2.4 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)	June 30, 2022	December 31, 2021
Real estate:		
Commercial	$ 2,036,559	$ 1,586,232
Commercial land and development	9,439	7,376
Commercial construction	70,404	54,214
Residential construction	7,075	7,388
Residential	26,246	28,562
Farmland	50,434	54,805
Commercial:		
Secured	136,155	137,062
Unsecured	24,262	21,136
Paycheck Protection Program (“PPP”)	—	22,124
Consumer and other	21,701	17,167
Subtotal	2,382,275	1,936,066
Less: Net deferred loan fees	1,764	1,606
Less: Allowance for loan losses	25,786	23,243
Loans held for investment, net of allowance for loan losses	$ 2,354,725	$ 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 completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the ultimate success of the project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored using on-site inspections and are generally considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

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

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

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

Credit Quality Indicators

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

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

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

Loans rated substandard: These are loans which are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged (if any). Loans so classified exhibit a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans are characterized by the distinct possibility that the Company may sustain some loss if the deficiencies are not corrected. 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 June 30, 2022:

(in thousands)	Pass	Watch	Substandard	Doubtful	Total
Real estate:					
Commercial	$ 2,020,665	$ 15,006	$ 888	$ —	$ 2,036,559
Commercial land and development	9,439	—	—	—	9,439
Commercial construction	64,504	5,900	—	—	70,404
Residential construction	7,075	—	—	—	7,075
Residential	26,070	—	176	—	26,246
Farmland	50,434	—	—	—	50,434
Commercial:					
Secured	135,071	932	152	—	136,155
Unsecured	24,262	—	—	—	24,262
PPP	—	—	—	—	—
Consumer	21,674	—	27	—	21,701
Total	$ 2,359,194	$ 21,838	$ 1,243	$ —	$ 2,382,275

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 June 30, 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	$ —	$ —	$ —	$ 2,036,559	$ 2,036,559
Commercial land and development	—	—	—	9,439	9,439
Commercial construction	—	—	—	70,404	70,404
Residential construction	—	—	—	7,075	7,075
Residential	—	—	—	26,246	26,246
Farmland	—	—	—	50,434	50,434
Commercial:					
Secured	—	—	—	136,155	136,155
Unsecured	—	—	—	24,262	24,262
PPP	—	—	—	—	—
Consumer and other	129	—	129	21,572	21,701
Total	$ 129	$ —	$ 129	$ 2,382,146	$ 2,382,275

There were no loans between 60-89 days past due nor any loans greater than 90 days past due and still accruing as of June 30, 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.

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Impaired Loans

Information related to impaired loans as of June 30, 2022 and December 31, 2021 consisted of the following:

	June 30, 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	$ 114	$ 114	$ —	$ 122	$ 122	$ —
Residential	176	176	—	178	178	—
Commercial:						
Secured	—	—	—	116	116	—
Consumer and other	12	12	—	—	—	—
	302	302	—	416	416	—
With an allowance recorded:						
Commercial:						
Secured	152	152	152	172	172	172
	152	152	152	172	172	172
Total by category:						
Real estate:						
Commercial	114	114	—	122	122	—
Residential	176	176	—	178	178	—
Commercial:						
Secured	152	152	152	288	288	172
Consumer and other	12	12	—	—	—	—
Total impaired loans	$ 454	$ 454	$ 152	$ 588	$ 588	$ 172

No collateral dependent loans were in process of foreclosure at June 30, 2022 or December 31, 2021.

Information related to impaired loans for the three months ended June 30, 2022 and 2021 consisted of the following:

	Three months ended June 30,			
	2022		2021	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Real estate:				
Commercial	$ 116	$ —	$ 132	$ —
Residential	177	—	181	—
Commercial:				
Secured	—	—	122	—
Consumer and other	27	—	—	—
	320	—	435	—
With an allowance recorded:				
Commercial:				
Secured	566	—	—	—
	566	—	—	—
Total by category:				
Real estate:				
Commercial	116	—	132	—
Residential	177	—	181	—
Commercial:				
Secured	566	—	122	—
Consumer and other	27	—	—	—
Total impaired loans	$ 886	$ —	$ 435	$ —

Information related to impaired loans for the six months ended June 30, 2022 and 2021 consisted of the following:

	Six months ended June 30,			
	2022		2021	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Real estate:				
Commercial	$ 118	$ —	$ 134	$ —
Residential	177	—	182	—
Commercial:				
Secured	58	—	126	—
Consumer and other	28	—	—	—
	381	—	442	—
With an allowance recorded:				
Commercial:				
Secured	651	—	—	—
Consumer and other	13	—	36	—
	664	—	36	—
Total by category:				
Real estate:				
Commercial	118	—	134	—
Residential	177	—	182	—
Commercial:				
Secured	709	—	126	—
Consumer and other	41	—	36	—
Total impaired loans	$ 1,045	$ —	$ 478	$ —

Non-accrual loans, segregated by class, were as follows as of June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022	December 31, 2021
Real estate:		
Commercial	$ 114	$ 122
Residential	176	178
Commercial:		
Secured	152	288
Total non-accrual loans	$ 442	$ 588

The amount of foregone interest income related to non-accrual loans was $6.9 thousand and $25.1 thousand for the three and six months ended June 30, 2022, respectively, compared to $6.8 thousand and $13.6 thousand for the three and six months ended June 30, 2021, respectively.

Troubled Debt Restructuring ("TDR")

There were no loans outstanding with a TDR designation at June 30, 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 June 30, 2022, two borrowing relationships with two loans totaling $0.1 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 June 30, 2022												
Beginning balance	$ 13,868	$ 66	$ 430	$ 40	$ 208	$ 611	$ 7,039	$ 246	$ —	$ 1,088	$ 308	$ 23,904
Charge-offs	—	—	—	—	—	—	(273)	—	(21)	(259)	—	(553)
Recoveries	—	—	—	—	—	—	40	—	—	145	—	185
Provision (recapture)	2,753	2	78	11	(20)	5	(522)	19	21	(437)	340	2,250
Ending balance	$ 16,621	$ 68	$ 508	$ 51	$ 188	$ 616	$ 6,284	$ 265	$ —	$ 537	$ 648	$ 25,786
Three months ended June 30, 2021												
Beginning balance	$ 10,219	$ 80	$ 504	$ 57	$ 188	$ 578	$ 8,918	$ 195	$ —	$ 600	$ 932	$ 22,271
Charge-offs	—	—	—	—	—	—	(183)	—	—	(72)	—	(255)
Recoveries	—	—	—	—	—	—	47	—	—	90	—	137
Provision (recapture)	(111)	(5)	(13)	(11)	—	16	412	14	—	(134)	(168)	—
Ending balance	$ 10,108	$ 75	$ 491	$ 46	$ 188	$ 594	$ 9,194	$ 209	$ —	$ 484	$ 764	$ 22,153
Six months ended June 30, 2022												
Beginning balance	$ 12,869	$ 50	$ 371	$ 50	$ 192	$ 645	$ 6,859	$ 207	$ —	$ 889	$ 1,111	$ 23,243
Charge-offs	—	—	—	—	—	—	(582)	—	(21)	(326)	—	(929)
Recoveries	—	—	—	—	—	—	85	—	—	187	—	272
Provision (recapture)	3,752	18	137	1	(4)	(29)	(78)	58	21	(213)	(463)	3,200
Ending balance	$ 16,621	$ 68	$ 508	$ 51	$ 188	$ 616	$ 6,284	$ 265	$ —	$ 537	$ 648	$ 25,786
Six months ended June 30, 2021												
Beginning balance	$ 9,358	$ 77	$ 821	$ 87	$ 220	$ 615	$ 9,476	$ 179	$ —	$ 632	$ 724	$ 22,189
Charge-offs	—	—	—	—	—	—	(440)	—	—	(72)	—	(512)
Recoveries	—	—	—	—	—	—	134	—	—	142	—	276
Provision (recapture)	750	(2)	(330)	(41)	(32)	(21)	24	30	—	(218)	40	200
Ending balance	$ 10,108	$ 75	$ 491	$ 46	$ 188	$ 594	$ 9,194	$ 209	$ —	$ 484	$ 764	$ 22,153

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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 June 30, 2022:												
Ending allowance balance allocated to:												
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ 152	$ —	$ —	$ —	$ —	$ 152
Loans collectively evaluated for impairment	16,621	68	508	51	188	616	6,132	265	—	537	648	25,634
Ending balance	$ 16,621	$ 68	$ 508	$ 51	$ 188	$ 616	$ 6,284	$ 265	$ —	$ 537	$ 648	$ 25,786
Loans:												
Ending balance individually evaluated for impairment	$ 114	$ —	$ —	$ —	$ 176	$ —	$ 152	$ —	$ —	$ 12	$ —	$ 454
Ending balance collectively evaluated for impairment	2,036,445	9,439	70,404	7,075	26,070	50,434	136,003	24,262	—	21,689	—	2,381,821
Ending balance	$ 2,036,559	$ 9,439	$ 70,404	$ 7,075	$ 26,246	$ 50,434	$ 136,155	$ 24,262	$ —	$ 21,701	$ —	$ 2,382,275
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
As of June 30, 2021:												
Ending allowance balance allocated to:												
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	10,108	75	491	46	188	594	9,194	209	—	484	764	22,153
Ending balance	$ 10,108	$ 75	$ 491	$ 46	$ 188	$ 594	$ 9,194	$ 209	$ —	$ 484	$ 764	$ 22,153
Loans:												
Ending balance: individually evaluated for impairment	$ 130	$ —	$ —	$ —	$ 181	$ —	$ 120	$ —	$ —	$ —	$ —	$ 431
Ending balance: collectively evaluated for impairment	1,153,470	10,472	67,984	6,362	26,266	48,888	127,117	20,772	120,936	6,902	—	1,589,169
Ending balance	$ 1,153,600	$ 10,472	$ 67,984	$ 6,362	$ 26,447	$ 48,888	$ 127,237	$ 20,772	$ 120,936	$ 6,902	$ —	$ 1,589,600

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 $1.3 billion and $941.2 million at June 30, 2022 and December 31, 2021, respectively. In addition, the Company pledges eligible tenants in common loans, which totaled $33.4 million at June 30, 2022 and December 31, 2021, 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 continue to have, 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 commitments to insiders and affiliates, net of cash collateral, totaled $8.9 million at June 30, 2022 and $9.7 million at December 31, 2021.

Note 6: Interest-Bearing Deposits

Interest-bearing deposits consisted of the following as of June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022	December 31, 2021
Interest-bearing transaction accounts	$ 221,024	$ 278,406
Savings accounts	94,122	88,536
Money market accounts	976,093	912,558
Time accounts, $250 or more	187,628	77,868
Other time accounts	16,378	26,404
Total interest-bearing deposits	$ 1,495,245	$ 1,383,772

Time deposits totaled $204.0 million and $104.3 million as of June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022, scheduled maturities of time deposits for the next five years were as follows:

(in thousands)	
2022	$ 188,847
2023	14,500
2024	120
2025	538
2026	1
Total time deposits	$ 204,006

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 June 30, 2022 and December 31, 2021. There were no one-way deposits at June 30, 2022 and December 31, 2021. The composition of network deposits as of June 30, 2022 and December 31, 2021 was as follows:

(in thousands)	June 30, 2022	December 31, 2021
CDARS	$ 12,388	$ 22,411
ICS	321,899	307,636
Total network deposits	$ 334,287	$ 330,047

At June 30, 2022 and December 31, 2021, deposits from related parties (directors, executive officers, and principal shareholders) totaled $35.8 million and $32.4 million, respectively.

Interest expense recognized on interest-bearing deposits for periods ended June 30, 2022 and 2021 consisted of the following:

	Three months ended		Six months ended	
(in thousands)	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Interest-bearing transaction accounts	$ 66	$ 37	$ 136	$ 75
Savings accounts	38	19	63	34
Money market accounts	679	475	1,045	1,057
Time accounts, $250 or more	226	8	286	15
Other time accounts	12	29	36	86
Total interest expense on interest-bearing deposits	$ 1,021	$ 568	$ 1,566	$ 1,267

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 and six months ended June 30, 2022, and $0.1 million for the three and six months ended June 30, 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 and 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 and six months ended June 30, 2022:

(in thousands)	Three months ended June 30, 2022	Six months ended June 30, 2022
Operating lease cost	$ 278	$ 563
Short-term lease cost	—	—
Variable lease cost	—	—
Sublease income	(5)	(11)
Total lease cost	$ 273	$ 552

Prior to the adoption of ASU 2016-02, rent expense under operating leases was $0.3 million and $0.5 million during the three and six months ended June 30, 2021, respectively. Rent expense was partially offset by rent income of $5.2 thousand and $10.4 thousand during the three and six months ended June 30, 2021, respectively.

The following table presents the weighted average operating lease term and discount rate at June 30, 2022:

	June 30, 2022
Weighted average remaining lease term (in years)	5.72 years
Weighted average discount rate	2.15 %

The following table shows the future expected operating lease payments under the Company's operating lease agreements as of June 30, 2022:

(in thousands)		
2022	$	534
2023		1,009
2024		984
2025		767
2026		665
Thereafter		1,107
Total expected operating lease payments		5,066
Discount for present value of expected cash flows		(327)
Lease liability at June 30, 2022	$	4,739

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 or former 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 (5.54% as of June 30, 2022) until maturity. The notes include a right of prepayment, on or after September 30, 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 (6.04% as of June 30, 2022) until maturity. The notes include a right of prepayment, on or after September 28, 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 as of June 30, 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 June 30, 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 $885.5 million at June 30, 2022 and $696.3 million at December 31, 2021. At June 30, 2022 and December 31, 2021, the Company had $60.0 million and no outstanding borrowings, respectively. As of June 30, 2022 and December 31, 2021, the Company had letters of credit ("LCs") issued on its behalf totaling $545.5 million and $420.5 million, respectively, as discussed below.

At June 30, 2022 and December 31, 2021, LCs totaling $155.5 million and $80.5 million, respectively, were pledged to secure State of California deposits, and LCs totaling $390.0 million and $340.0 million, respectively, were pledged to secure local agency deposits. The LCs issued reduced the Company's available borrowing capacity to $280.0 million and $275.8 million as of June 30, 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 six months ended June 30, 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 June 30, 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 June 30, 2022 and December 31, 2021.

At June 30, 2022 and December 31, 2021, the Company had the ability to borrow from the Federal Reserve Discount Window. At June 30, 2022 and December 31, 2021, the borrowing capacity under this arrangement was $17.6 million and $17.0 million, respectively. There were no amounts outstanding at June 30, 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 its 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 periods presented below, the tax rate reflects the actual effective tax rate for the three and six months ended June 30, 2022, as the Company was a C Corporation for the entirety of each period. The following reconciliation table provides a detailed calculation of the pro forma provision for income taxes:

	For the three months ended		For the six months ended	
(in thousands)	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income before provision for income taxes	$ 14,033	$ 10,562	$ 27,555	$ 21,222
Effective/pro forma tax rate	29.07 %	29.56 %	28.09 %	29.56 %
Actual/pro forma provision for income taxes	$ 4,080	$ 3,122	$ 7,740	$ 6,273

The provision for income tax for the three and six months ended June 30, 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:

	For the three months ended		For the six months ended	
(in thousands)	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Statutory U.S. federal income tax	$ 2,947	$ 2,218	$ 5,787	$ 4,457
Increase (decrease) resulting from:				
Benefit of S Corporation status	—	(766)	—	(3,004)
State taxes	1,201	1,444	2,358	1,825
C Corp conversion federal rate change	—	1,484	—	1,484
Deferred tax asset adjustment	—	(4,638)	—	(4,638)
Other	(68)	992	(405)	992
Provision for income taxes	$ 4,080	$ 734	$ 7,740	$ 1,116

For the three and six months ended June 30, 2022, the Company's federal and state statutory tax rate, net of federal benefit, of 29.56%, differed from the effective tax rate of 20.77% used for the three and six months ended June 30, 2021 due to the termination of the Company's Subchapter S Corporation status as of May 5, 2021. For the three and six months ended June 30, 2021, the statutory California tax rate of 3.50% and the federal and state statutory rate, net of federal benefit, of 29.56%, were applied to the Company's income based on the number of days the Company was each type of corporation during 2021.

Note 10: Shareholders' Equity

Dividends

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

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.

Non-cash stock compensation expense recognized for the three months ended June 30, 2022 and 2021 was $0.3 million and $1.0 million, respectively. Non-cash stock compensation expense recognized for the six months ended June 30, 2022 and 2021 was $0.6 million and $1.0 million, respectively.

At June 30, 2022 and 2021, respectively, there were 107,824 and 129,551 unvested restricted shares. As of June 30, 2022, there was approximately $2.2 million of unrecognized compensation expense related to the 107,824 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 and six months ended June 30, 2022 and 2021 was immaterial.

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

	For the three months ended June 30,				For the six months ended June 30,			
	2022		2021		2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of the period balance	138,856	$ 20.95	6,296	$ 18.91	127,751	$ 19.95	11,568	$ 21.25
Shares granted	1,438	25.02	163,755	20.00	23,639	28.29	173,207	19.89
Shares vested	(30,816)	21.25	(40,500)	20.00	(41,062)	22.15	(52,502)	20.10
Shares forfeited	(1,654)	23.79	—	—	(2,504)	22.50	(2,722)	18.88
End of the period balance	107,824	$ 20.88	129,551	$ 19.95	107,824	$ 20.88	129,551	$ 19.95

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 were as follows:

(in thousands)	June 30, 2022	December 31, 2021
Commercial lines of credit	$ 117,592	$ 137,354
Undisbursed construction loans	70,545	46,584
Undisbursed commercial real estate loans	76,768	47,793
Agricultural lines of credit	11,768	9,955
Undisbursed agricultural real estate loans	1,063	3,427
Other	2,261	3,764
Total commitments and standby letters of credit	$ 279,997	$ 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 June 30, 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 92.42% of the Company's loans held for investment at June 30, 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 June 30, 2022, the Company had 78 deposit relationships that exceeded $5.0 million each, totaling $1.3 billion, or approximately 52.14% of total deposits. The Company's largest single deposit relationship at June 30, 2022 totaled $175.5 million, or approximately 7.02% 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 $132.0 million and $147.2 million at June 30, 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 July 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, 2022. 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 one loan production office. Our mission is to strive to become the top business bank in all markets we serve through exceptional service, deep connectivity, and customer empathy. We are dedicated to serving real estate, agricultural, faith-based, and small to medium-sized enterprises. We aim to consistently deliver value that meets or exceeds the expectations of our shareholders, customers, employees, business partners, and community. We refer to our mission as “purpose-driven and integrity-centered banking.” At June 30, 2022, we had total assets of $2.8 billion, total loans held for investment, net of allowance for loan losses, of $2.4 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, 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 and six months ended June 30, 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 and six months ended June 30, 2022 totaled $10.0 million and $19.8 million, respectively, compared to net income of $9.8 million and $20.1 million for the three and six months ended June 30, 2021, respectively.

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

- ***Assets.*** Total assets were $2.8 billion at June 30, 2022, representing a $279.3 million, or 10.92%, 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 $2.4 billion at June 30, 2022, compared to $1.9 billion at December 31, 2021, an increase of $446.1 million, or 23.06%. The increase was primarily attributable to a $450.3 million net increase in commercial real estate loans and a $16.2 million net increase in commercial construction loans, partially offset by a $22.1 million net decrease in Paycheck Protection Program ("PPP") loans.

- ***PPP Loans.*** All PPP loans had been forgiven, paid off by the borrower, or charged off as of June 30, 2022.

- ***Coronavirus Disease ("COVID-19") Deferments.*** As of June 30, 2022, two borrowing relationships with two loans totaling $0.1 million were on COVID-19 deferment. All but one of the loans that ended COVID-19 deferments during the quarter ended June 30, 2022 have returned to their pre-COVID-19 contractual payment structures with no risk rating downgrades to classified, nor any troubled debt restructuring ("TDR"). Of the loans that ended COVID-19 deferments in the quarter ended June 30, 2022, one is non-accrual and returned to its pre-COVID-19 risk rating of classified as of June 30, 2022. 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 $0.4 million, or 0.02% of total loans held for investment, at June 30, 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 1.08% at June 30, 2022 and 1.20% at December 31, 2021.

- ***Return on Average Assets ("ROAA") and Return on Average Equity ("ROAE").*** ROAA and ROAE were 1.45% and 17.20%, respectively, for the three months ended June 30, 2022, as compared to ROAA of 1.75% and ROAE of 24.25% for the three months ended June 30, 2021. Pro forma ROAA and ROAE for the three months ended June 30, 2022 were equal to actual ROAA and ROAE of 1.45% and 17.20%, respectively, as compared to pro forma ROAA of 1.33% and pro forma ROAE of 18.36% for the three months ended June 30, 2021. ROAA and ROAE were 1.49% and 17.07%, respectively, for the six months ended June 30, 2022, as compared to ROAA of 1.89% and ROAE of 27.78% for the six months ended June 30, 2021. Pro forma ROAA and ROAE for the six months ended June 30, 2022 were equal to actual ROAA and ROAE of 1.49% and 17.07%, respectively, as compared to pro forma ROAA of 1.41% and pro forma ROAE of 20.66% for the six months ended June 30, 2021.

- ***Net Interest Margin.*** Net interest margin was 3.70% and 3.65% for the three and six months ended June 30, 2022, respectively, and 3.48% and 3.65% for the three and six months ended June 30, 2021, respectively. The increase in net interest margin for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 was primarily attributable to increases in yields on interest-earning deposits with banks and investment securities, partially offset by decreases in average loan yields.

- ***Efficiency Ratio.*** Efficiency ratio was 38.53% for the three months ended June 30, 2022, down from 47.56% for the corresponding period of 2021. Additionally, efficiency ratio was 39.14% for the six months ended June 30, 2022, down from 46.18% for the corresponding period of 2021. The decreases were primarily attributable to increases in net interest income period-over-period.

- ***Deposits.*** Total deposits increased by $215.4 million from $2.3 billion at December 31, 2021 to $2.5 billion at June 30, 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 $103.9 million in the first six months of 2022 to $1.0 billion, and represented 40.22% of total deposits at June 30, 2022, compared to 39.46% of total deposits at December 31, 2021. Our loan to deposit ratio was 95.69% at June 30, 2022, compared to 85.09% at December 31, 2021.

- ***Capital Ratios***. All capital ratios were above well-capitalized regulatory thresholds as of June 30, 2022. The total risk-based capital ratio for the Company was 11.77% at June 30, 2022, compared to 13.98% at December 31, 2021. The Tier 1 leverage ratio was 8.81% at June 30, 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 April 21, 2022.

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

(dollars in thousands)	**June 30, 2022**	**December 31, 2021**
Selected financial condition data:		
Total assets	$ 2,836,071	$ 2,556,761
Total loans held for investment	2,380,511	1,934,460
Total deposits	2,501,311	2,285,890
Total subordinated notes, net	28,420	28,386
Total shareholders' equity	233,200	235,046
Asset quality ratios:		
Allowance for loan losses to total loans held for investment	1.08 %	1.20 %
Allowance for loan losses to total loans held for investment, excluding PPP loans[1]	1.08 %	1.22 %
Allowance for loan losses to non-accrual loans	5,834.88 %	3,954.30 %
Non-accrual loans to total loans held for investment	0.02 %	0.03 %
Capital ratios:		
Total capital (to risk-weighted assets)	11.77 %	13.98 %
Tier 1 capital (to risk-weighted assets)	9.62 %	11.44 %
Common equity Tier 1 capital (to risk-weighted assets)	9.62 %	11.44 %
Tier 1 leverage	8.81 %	9.47 %
Total shareholders' equity to total assets ratio	8.22 %	9.19 %
Tangible shareholders' equity to tangible assets[2]	8.22 %	9.19 %

(dollars in thousands, except per share data)	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Selected operating data:				
Net interest income	$ 24,491	$ 18,296	$ 46,353	$ 36,344
Provision for loan losses	2,250	—	3,200	200
Non-interest income	1,997	1,846	4,182	3,462
Non-interest expense	10,205	9,580	19,780	18,384
Net income	9,953	9,828	19,815	20,106
Net income per common share:				
Basic	$ 0.58	$ 0.67	$ 1.15	$ 1.57
Diluted	$ 0.58	$ 0.67	$ 1.15	$ 1.57
Selected pro forma operating data:				
Pro forma net income[3]	9,953	7,440	19,815	14,949
Pro forma provision for income taxes[3]	4,080	3,122	7,740	6,273
Pro forma net income per common share[3]:				
Basic	$ 0.58	$ 0.51	$ 1.15	$ 1.17
Diluted	$ 0.58	$ 0.51	$ 1.15	$ 1.16
Performance and other financial ratios:				
ROAA	1.45 %	1.75 %	1.49 %	1.89 %
ROAE	17.20 %	24.25 %	17.07 %	27.78 %
Net interest margin	3.70 %	3.48 %	3.65 %	3.65 %
Cost of funds	0.24 %	0.20 %	0.20 %	0.22 %
Efficiency ratio	38.53 %	47.56 %	39.14 %	46.18 %
Cash dividend payout ratio on common stock[4]	25.86 %	484.46 %	26.09 %	271.08 %
Selected pro forma ratios:				
Pro forma ROAA[3,5]	1.45 %	1.33 %	1.49 %	1.41 %
Pro forma ROAE[3,5]	17.20 %	18.36 %	17.07 %	20.66 %

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 and six months ended June 30, 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 and six months ended June 30, 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- and six-month periods, and thus pro forma calculations for the three and six months ended June 30, 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 and six months ended June 30, 2022 to the three and six months ended June 30, 2021. The results of operations for the three and six months ended June 30, 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, Federal Home Loan Bank of San Francisco ("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 June 30, 2022 compared to three months ended June 30, 2021

Net interest income increased by $6.2 million, or 33.86%, to $24.5 million for the three months ended June 30, 2022 from $18.3 million for the three months ended June 30, 2021. Our net interest margin of 3.70% for the three months ended June 30, 2022 increased from 3.48% for the three months ended June 30, 2021, primarily due to an increase in average yields on interest-earning deposits with banks and investment securities. Yields on interest-earning deposits with banks increased due to three Federal Reserve rate increases totaling 1.50% that occurred between June 30, 2021 and June 30, 2022. Additionally, yields on investment securities increased as a result of the Federal Reserve rate hikes discussed above, as U.S. government agencies are indexed to the prime rate, which resets quarterly and changes commensurate with changes that occur to Federal Reserve rates. These increases were partially offset by a decrease in average loan yields, which decreased from 4.73% for the three months ended June 30, 2021 to 4.47% for the three months ended June 30, 2022. This decrease was primarily due to changes in the macroeconomic environment, which caused a majority of the Company's fixed-rate loans to recognize lower yields in the current quarter than those recognized in the same quarter of 2021. 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 June 30, 2022, as compared to the three months ended June 30, 2021, but a majority of these loans were not scheduled to reprice during the three months ended June 30, 2022, which also contributed 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 June 30, 2021 to the three months ended June 30, 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 June 30, 2022			For the three months ended June 30, 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]	$ 294,491	$ 518	0.71 %	$ 378,000	$ 125	0.13 %
Investment securities[2]	132,975	602	1.82 %	149,814	557	1.49 %
Loans held for investment and sale[1,3]	2,227,215	24,841	4.47 %	1,578,438	18,626	4.73 %
Total interest-earning assets[1]	2,654,681	25,961	3.92 %	2,106,252	19,308	3.68 %
Interest receivable and other assets, net	98,972			140,757		
Total assets	$ 2,753,653			$ 2,247,009		
Liabilities and shareholders' equity						
Interest-bearing transaction accounts	$ 255,665	$ 66	0.10 %	$ 150,852	$ 37	0.10 %
Savings accounts	96,867	38	0.16 %	75,424	19	0.10 %
Money market accounts	981,366	679	0.28 %	949,448	475	0.20 %
Time accounts	174,991	238	0.55 %	36,773	37	0.40 %
Subordinated debt and other borrowings[1]	29,618	449	6.07 %	28,339	444	6.27 %
Total interest-bearing liabilities	1,538,507	1,470	0.38 %	1,240,836	1,012	0.33 %
Demand accounts	969,053			827,992		
Interest payable and other liabilities	13,937			15,621		
Shareholders' equity	232,156			162,560		
Total liabilities and shareholders' equity	$ 2,753,653			$ 2,247,009		
Net interest spread[4]			3.54 %			3.35 %
Net interest income/margin[5]		$ 24,491	3.70 %		$ 18,296	3.48 %

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/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 June 30, 2022 compared to the three months ended June 30, 2021		
(dollars in thousands)	**Volume**	**Yield/Rate**	**Total**
Interest-earning deposits with banks	$ (146)	$ 539	$ 393
Investment securities	(74)	119	45
Loans held for investment and sale	7,239	(1,024)	6,215
Total interest-earning assets	7,019	(366)	6,653
Interest-bearing transaction accounts	29	—	29
Savings accounts	8	11	19
Money market accounts	21	183	204
Time accounts	187	14	201
Subordinated debt and other borrowings	17	(12)	5
Total interest-bearing liabilities	262	196	458
Changes in net interest income/margin	$ 6,757	$ (562)	$ 6,195

Total interest income increased by $6.7 million, or 34.46%, to $26.0 million for the three months ended June 30, 2022 from $19.3 million for the corresponding period of 2021. For the three months ended June 30, 2022, interest income from loans increased by $6.2 million to $24.8 million, as the average daily balance of loans increased by $648.8 million, or 41.10%, compared to the same period of 2021. This increase in interest income from greater average loan balances was partially offset by a 26 basis point decrease in loan yield to 4.47% for the three months ended June 30, 2022 as compared to the same period of 2021, as discussed above. Additionally, $24.0 thousand of income from forgiven PPP loans was recognized in the three months ended June 30, 2022, compared to $1.4 million during the same period of 2021. Excluding PPP loans, average loans held for investment and sale increased by $806.9 million to $2.2 billion, and the related yield declined by 29 basis points for the three months ended June 30, 2022 from the corresponding 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 increased by $0.5 million to $1.5 million for the three months ended June 30, 2022 from $1.0 million for the same period of 2021. Interest expense on customer deposits increased by $0.5 million to $1.0 million for the three months ended June 30, 2022 from $0.6 million for the same period of 2021. This increase is due to the cost of interest-bearing liabilities increasing by 5 basis points to 0.38% for the three months ended June 30, 2022 from 0.33% for the same period of 2021, reflecting increases in the rates offered on savings, money market, and maturing deposit products during the period.

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

Net interest income increased by $10.0 million, or 27.54%, to $46.4 million for the six months ended June 30, 2022 from $36.3 million for the six months ended June 30, 2021. Our net interest margin of 3.65% for the six months ended June 30, 2022 remained constant with our net interest margin of 3.65% for the six months ended June 30, 2021, primarily due to a decrease in average loan yields, offset by increases in average yields on interest-earning deposits with banks and investment securities. Yields on interest-earning deposits with banks increased due to three Federal Reserve rate increases totaling 1.50% that occurred between June 30, 2021 and June 30, 2022. Additionally, yields on investment securities increased as a result of the Federal Reserve rate hikes discussed above, as U.S. government agencies are indexed to the prime rate, which resets quarterly and changes commensurate with changes that occur to Federal Reserve rates. Average loan yields decreased from 4.84% for the six months ended June 30, 2021 to 4.50% for the six months ended June 30, 2022. This decrease was primarily due to changes in the macroeconomic environment, which caused a majority of the Company's fixed-rate loans to recognize lower yields in the first half of 2022 than those recognized in the first half of 2021. 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 six months ended June 30, 2022, as compared to the six months ended June 30, 2021, but a majority of these loans were not scheduled to reprice during the six months ended June 30, 2022, which also contributed to the downward trend in average loan yields. New loan originations drove increases in the average daily balance of loans from the six months ended June 30, 2021 to the six months ended June 30, 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 six months ended June 30, 2022			For the six months ended June 30, 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]	$ 316,590	$ 710	0.45 %	$ 320,734	$ 229	0.14 %
Investment securities[2]	140,857	1,169	1.67 %	136,041	1,030	1.53 %
Loans held for investment and sale[1,3]	2,102,382	46,932	4.50 %	1,552,364	37,239	4.84 %
Total interest-earning assets[1]	2,559,829	48,811	3.85 %	2,009,139	38,498	3.86 %
Interest receivable and other assets, net	124,565			133,394		
Total assets	$ 2,684,394			$ 2,142,533		
Liabilities and shareholders' equity						
Interest-bearing transaction accounts	$ 265,962	$ 136	0.10 %	$ 152,694	$ 75	0.10 %
Savings accounts	93,842	63	0.14 %	68,223	34	0.10 %
Money market accounts	951,012	1,046	0.22 %	908,621	1,058	0.23 %
Time accounts	151,454	321	0.43 %	41,430	100	0.49 %
Subordinated debt and other borrowings[1]	29,005	892	6.20 %	28,332	887	6.31 %
Total interest-bearing liabilities	1,491,275	2,458	0.33 %	1,199,300	2,154	0.36 %
Demand accounts	945,511			786,955		
Interest payable and other liabilities	13,551			10,338		
Shareholders' equity	234,057			145,940		
Total liabilities and shareholders' equity	$ 2,684,394			$ 2,142,533		
Net interest spread[4]			3.52 %			3.50 %
Net interest income/margin[5]		$ 46,353	3.65 %		$ 36,344	3.65 %

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/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 six months ended June 30, 2022 compared to the six months ended June 30, 2021		
(dollars in thousands)	**Volume**	**Yield/Rate**	**Total**
Interest-earning deposits with banks	$ (9)	$ 490	$ 481
Investment securities	41	98	139
Loans held for investment and sale	12,295	(2,602)	9,693
Total interest-earning assets	12,327	(2,014)	10,313
Interest-bearing transaction accounts	61	—	61
Savings accounts	17	12	29
Money market accounts	21	(33)	(12)
Time accounts	233	(12)	221
Subordinated debt and other borrowings	18	(13)	5
Total interest-bearing liabilities	350	(46)	304
Changes in net interest income/margin	$ 11,977	$ (1,968)	$ 10,009

Total interest income increased by $10.3 million, or 26.79%, to $48.8 million for the six months ended June 30, 2022 from $38.5 million for the corresponding period of 2021. For the six months ended June 30, 2022, interest income from loans increased by $9.7 million to $46.9 million, as the average daily balance of loans increased by $550.0 million, or 35.43%, compared to the same period of 2021. This increase in interest income from greater average loan balances was partially offset by a 34 basis point decrease in loan yield to 4.50% for the six months ended June 30, 2022 as compared to the same period of 2021, as discussed above. Additionally, $0.6 million of income from forgiven PPP loans was recognized in the six months ended June 30, 2022, compared to $3.3 million during the same period of 2021. Excluding PPP loans, average loans held for investment and sale increased by $712.7 million to $2.1 billion, and the related yield declined by 36 basis points for the six months ended June 30, 2022 from the corresponding 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 increased by $0.3 million to $2.5 million for the six months ended June 30, 2022 from $2.2 million for the same period of 2021. Interest expense on customer deposits increased by $0.3 million to $1.6 million for the six months ended June 30, 2022 from $1.3 million for the same period of 2021. This increase is primarily due to the average daily balance of interest-bearing liabilities increasing by $292.0 million, or 24.35%, compared to the same period of 2021.

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

We recorded a $2.3 million provision for loan losses in the second quarter of 2022, compared to no provision for loan losses recorded for the same period of 2021. The increase of $2.3 million for the provision period-over-period was primarily due to increased reserves based on loan growth and economic conditions during the second quarter of 2022, while improved economic conditions related to the impact of the COVID-19 pandemic during the second quarter of 2021 provided favorable economic conditions for our borrowers, which resulted in no provision for the period. The Company had a decrease in loans designated as watch and substandard from $57.8 million as of June 30, 2021 to $23.1 million as of June 30, 2022, causing a reduction in related reserves, which partially offset the increase in provision for loan losses period-over-period.

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

We recorded a $3.2 million provision for loan losses in the first six months of 2022, compared to a $0.2 million provision for loan losses for the same period of 2021. The increase of $3.0 million for the provision period-over-period was primarily due to increased reserves based on loan growth and economic conditions during the second quarter of 2022, while improved economic conditions related to the impact of the COVID-19 pandemic during the first six months of 2021 provided favorable economic conditions for our borrowers, which resulted in a less significant provision for the period. The Company had a decrease in loans designated as watch and substandard from $57.8 million as of June 30, 2021 to $23.1 million as of June 30, 2022, causing a reduction in related reserves, which partially offset the increase in provision for loan losses period-over-period.

Non-interest Income

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

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

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

	For the three months ended			
(dollars in thousands)	**June 30, 2022**	**June 30, 2021**	**$ Change**	**% Change**
Service charges on deposit accounts	$ 130	$ 106	$ 24	22.64 %
Net gain on sale of securities	—	92	(92)	(100.00)%
Gain on sale of loans	831	1,091	(260)	(23.83)%
Loan-related fees	795	369	426	115.45 %
FHLB stock dividends	99	92	7	7.61 %
Earnings on BOLI	101	60	41	68.33 %
Other income	41	36	5	13.89 %
Total non-interest income	$ 1,997	$ 1,846	$ 151	8.18 %

Gain on sale of loans. The decrease in gain on sale of loans related primarily to an overall decline in the effective yields on loans sold during the three months ended June 30, 2021 compared to the three months ended June 30, 2022, from 9.82% to 4.64%. The decrease in effective yields related to uncertainty surrounding the timing of rising interest rates and due to premiums received on loans sold during the three months ended June 30, 2021, which did not recur during the three months ended June 30, 2022. Additionally, the volume of loans sold during the three months ended June 30, 2021 increased from the volume of loans sold during the three months ended June 30, 2022, from $11.1 million to $17.9 million, due to several large dollar value loans (funded in prior periods) reaching the end of their interest-only periods, allowing for sale in the second quarter of 2022.

Loan-related fees. The increase in loan-related fees resulted primarily from the recognition of $0.4 million in swap referral fees during the three months ended June 30, 2022, as compared to $0.1 million of swap referral fees recognized during the three months ended June 30, 2021.

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

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

	For the six months ended			
(dollars in thousands)	**June 30, 2022**	**June 30, 2021**	**$ Change**	**% Change**
Service charges on deposit accounts	$ 238	$ 196	$ 42	21.43 %
Net gain on sale of securities	5	274	(269)	(98.18)%
Gain on sale of loans	1,749	2,022	(273)	(13.50)%
Loan-related fees	1,412	629	783	124.48 %
FHLB stock dividends	201	170	31	18.24 %
Earnings on BOLI	191	112	79	70.54 %
Other income	386	59	327	554.24 %
Total non-interest income	$ 4,182	$ 3,462	$ 720	20.80 %

Net gain on sale of securities. The decrease in net gain on sale of securities was due to a lower volume of securities sold during the six months ended June 30, 2022 than sold during the corresponding period of 2021. $1.5 million of municipal securities were sold for a gain of $5.3 thousand during the six months ended June 30, 2022, while $15.4 million of municipal securities were sold for a net gain of $0.3 million during the six months ended June 30, 2021.

Gain on sale of loans. The decrease in gain on sale of loans related primarily to an overall decline in the effective yields on loans sold period-over-period. The effective yield on loans sold during the six months ended June 30, 2022 was 6.80%, as compared to an effective yield of 8.85% for loans sold during the six months ended June 30, 2021. This fluctuation was due to uncertainty surrounding the timing of rising interest rates and premiums received on loans sold.

Loan-related fees. The increase in loan-related fees primarily related to $0.7 million of swap referral fees recognized during the six months ended June 30, 2022, as compared to $0.1 million recognized in the six months ended June 30, 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 six months ended June 30, 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 the Company's efficiency ratio, which is calculated as non-interest expense divided by the sum of net interest income and non-interest income. We constantly seek to identify ways to streamline our business and operate more efficiently, which has enabled us to reduce our non-interest expense over time, 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 has increased throughout 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 June 30, 2022 compared to three months ended June 30, 2021

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

	For the three months ended			
(dollars in thousands)	**June 30, 2022**	**June 30, 2021**	**$ Change**	**% Change**
Salaries and employee benefits	$ 5,553	$ 4,939	$ 614	12.43 %
Occupancy and equipment	513	441	72	16.33 %
Data processing and software	739	598	141	23.58 %
FDIC insurance	245	150	95	63.33 %
Professional services	568	1,311	(743)	(56.67)%
Advertising and promotional	484	265	219	82.64 %
Loan-related expenses	389	218	171	78.44 %
Other operating expenses	1,714	1,658	56	3.38 %
Total non-interest expense	$ 10,205	$ 9,580	$ 625	6.52 %

Salaries and employee benefits. The increase in salaries and employee benefits was primarily a result of a $1.0 million increase in salaries, insurance, and benefits as a result of a 14.94% increase in headcount between June 30, 2021 and June 30, 2022, combined with a $0.6 million increase in commissions and bonuses from the three months ended June 30, 2021 to the three months ended June 30, 2022. These increases were partially offset by a $0.9 million increase in deferred loan origination costs between the three months ended June 30, 2022 and the three months ended June 30, 2021.

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

Professional services. Professional services decreased, primarily as a result of expenses recognized during the three months ended June 30, 2021 related to the increased audit, consulting, and legal costs incurred to support corporate organizational matters leading up to the IPO. These expenses did not recur during the three months ended June 30, 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 in events held during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

Loan-related expenses. Loan-related expenses increased, primarily due to increased expenses for legal services, environmental reports, UCC fees, and inspections to support increased loan production.

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

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

(dollars in thousands)	For the six months ended June 30, 2022	June 30, 2021	$ Change	% Change
Salaries and employee benefits	$ 11,228	$ 9,636	$ 1,592	16.52 %
Occupancy and equipment	1,033	892	141	15.81 %
Data processing and software	1,455	1,227	228	18.58 %
FDIC insurance	410	430	(20)	(4.65)%
Professional services	1,122	2,843	(1,721)	(60.53)%
Advertising and promotional	828	435	393	90.34 %
Loan-related expenses	667	447	220	49.22 %
Other operating expenses	3,037	2,474	563	22.76 %
Total non-interest expense	$ 19,780	$ 18,384	$ 1,396	7.59 %

Salaries and employee benefits. The increase in salaries and employee benefits was primarily a result of a $2.0 million increase in salaries and overtime pay as a result of a 14.94% increase in headcount between June 30, 2021 and June 30, 2022, combined with a $0.9 million increase in commissions from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were partially offset by a $1.6 million increase in deferred loan origination costs from the six months ended June 30, 2021 to the six months ended June 30, 2022.

Occupancy and equipment. The increase in occupancy and equipment was primarily the result of an overall increase in depreciation recognized for furniture, fixtures, and equipment that was purchased to support the 14.94% increase in headcount described above, combined with an overall increase in occupancy expenses year-over-year.

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

Professional services. Professional services decreased, primarily as a result of expenses recognized during the six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

Loan-related expenses. The increase in loan-related expenses was primarily related to an overall net increase in loan expenses incurred to support loan production in the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, primarily due to increased expenses for legal services, UCC fees, and inspections.

Other operating expenses. The increase in other operating expenses was primarily due to a $0.5 million increase in travel expenses related to attendance of professional events, conferences, and other business-related travel during the six months ended June 30, 2022, compared to the six months ended June 30, 2021.

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 and six months ended June 30, 2022 yielded effective tax rates of 29.07% and 28.09%, respectively. 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 and six months ended June 30, 2021.

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

The provision for income taxes increased by $3.3 million, or 455.86%, to $4.1 million for the three months ended June 30, 2022, as compared to $0.7 million for the three months ended June 30, 2021. This increase is due to the change in the effective tax rate from 6.95% for the three months ended June 30, 2021 to 29.07% for the three months ended June 30, 2022. This increase was partially offset by a $4.6 million reduction to the provision for income taxes relating to the adjustment of net deferred tax assets due to the termination of the Company's S Corporation status during the three months ended June 30, 2021, which did not recur during the three months ended June 30, 2022, .

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

The provision for income taxes for the six months ended June 30, 2022 increased by $6.6 million, or 593.55%, to $7.7 million, as compared to $1.1 million during the six months ended June 30, 2021. This increase is due to the change in the effective tax rate from 5.26% for the six months ended June 30, 2021 to 28.09% for the six months ended June 30, 2022. This increase was partially offset by a $4.6 million reduction to the provision for income taxes, which did not recur during the six months ended June 30, 2022, relating to the adjustment of the net deferred tax assets due to the termination of the Company's S Corporation status during the six months ended June 30, 2021.

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 a portion of the three and six months ended June 30, 2021. Had the Company been taxed as a C Corporation and paid U.S. federal income tax for the entirety of those periods, the combined statutory income tax rate would have been 29.56%. For the three and six months ended June 30, 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 the entirety of the three and six months ended June 30, 2021, on a statutory income tax rate pro forma basis, the provision for combined federal and state income tax would have been $3.1 million and $6.3 million, respectively. 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 $7.4 million and $14.9 million for the three and six months ended June 30, 2021, respectively.

FINANCIAL CONDITION SUMMARY

The following discussion compares our financial condition as of June 30, 2022 to our financial condition as of December 31, 2021. The following table summarizes selected components of our balance sheet as of June 30, 2022 and December 31, 2021.

(dollars in thousands)	June 30, 2022	December 31, 2021
Total assets	$ 2,836,071	$ 2,556,761
Cash and cash equivalents	$ 270,758	$ 425,329
Total investments	$ 126,903	$ 153,753
Loans held for investment	$ 2,380,511	$ 1,934,460
Total deposits	$ 2,501,311	$ 2,285,890
Subordinated notes, net	$ 28,420	$ 28,386
Total shareholders’ equity	$ 233,200	$ 235,046

Total Assets

At June 30, 2022, total assets were $2.8 billion, an increase of $279.3 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 $270.8 million at June 30, 2022, a decrease of $154.6 million from $425.3 million at December 31, 2021. The decrease in cash and cash equivalents was primarily a result of loans originated for sale of $37.0 million, loan originations and advances, net of principal collected, of $436.2 million, and cash distributions of $10.1 million during the six months ended June 30, 2022. These decreases were partially offset by net income recognized of $19.8 million, proceeds from sale of loans of $25.7 million, an increase in deposits of $215.4 million, and cash received from an FHLB advance of $60.0 million.

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 $126.9 million at June 30, 2022 and $153.8 million at December 31, 2021, representing a decrease of $26.9 million. The decrease was primarily due to an unrealized loss (tax effected) on securities of $12.7 million, primarily in our mortgage-backed and municipal securities portfolios, resulting in decreases to each of those portfolios of $11.8 million and $7.8 million, respectively. This unrealized loss was recognized as a result of interest rate hikes that occurred during the period.

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

	As of			
	June 30, 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	$ 16,958	13.36 %	$ 19,682	12.80 %
Mortgage-backed securities	66,076	52.07 %	81,513	53.02 %
Obligations of states and political subdivisions	37,164	29.29 %	45,137	29.36 %
Collateralized mortgage obligations	448	0.35 %	540	0.35 %
Corporate bonds	1,780	1.40 %	1,935	1.26 %
Total available-for-sale	122,426	96.47 %	148,807	96.79 %
Held-to-maturity (at amortized cost):				
Obligations of states and political subdivisions	4,477	3.53 %	4,946	3.21 %
	$ 126,903	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 June 30, 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	$ —	— %	$ 1,127	1.98 %	$ 3,214	1.29 %	$ 12,617	1.30 %	$ 16,958	1.34 %
Mortgage-backed securities	—	— %	—	— %	2	6.94 %	66,074	1.66 %	66,076	1.66 %
Obligations of states and political subdivisions	508	2.80 %	—	— %	3,888	1.62 %	32,768	1.69 %	37,164	1.70 %
Collateralized mortgage obligations	—	— %	—	— %	—	— %	448	1.76 %	448	1.76 %
Corporate bonds	—	— %	1,780	1.25 %	—	— %	—	— %	1,780	1.25 %
Total available-for-sale	508	2.80 %	2,907	1.53 %	7,104	1.47 %	111,907	1.63 %	122,426	1.62 %
Held-to-maturity:										
Obligations of states and political subdivisions	447	6.00 %	1,115	6.00 %	1,590	6.00 %	1,325	6.00 %	4,477	6.00 %
Total	$ 955	4.30 %	$ 4,022	2.77 %	$ 8,694	2.30 %	$ 113,232	1.68 %	$ 126,903	1.78 %

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:

(dollars in thousands)	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years		Total	
	Carrying Value	Weighted 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. For callable municipal securities and corporate bonds, weighted average yield is a yield to worst. Weighted average yield for securities held-to-maturity is the stated coupon of the bond.

A summary of the amortized cost and fair value related to securities as of June 30, 2022 and December 31, 2021 is presented below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2022				
Available-for-sale:				
U.S. government agencies	$ 17,114	$ 86	$ (242)	$ 16,958
Mortgage-backed securities	76,442	3	(10,369)	66,076
Obligations of states and political subdivisions	44,490	9	(7,335)	37,164
Collateralized mortgage obligations	475	—	(27)	448
Corporate bonds	2,000	—	(220)	1,780
Total available-for-sale	$ 140,521	$ 98	$ (18,193)	$ 122,426
Held-to-maturity:				
Obligations of states and political subdivisions	$ 4,477	$ —	$ (145)	$ 4,332
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 primarily attributable to interest rate changes, rather than the marketability of the securities or the issuer's ability to honor redemption of the obligations, as a majority of the securities with unrealized losses are 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 June 30, 2022 and December 31, 2021, our total loans amounted to $2.4 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			
	June 30, 2022		December 31, 2021	
(dollars in thousands)	**Amount**	**% of Loans**	**Amount**	**% of Loans**
Loans held for investment:				
Real estate:				
Commercial	$ 2,036,559	85.02 %	$ 1,586,232	81.48 %
Commercial land and development	9,439	0.39 %	7,376	0.38 %
Commercial construction	70,404	2.94 %	54,214	2.78 %
Residential construction	7,075	0.30 %	7,388	0.38 %
Residential	26,246	1.10 %	28,562	1.47 %
Farmland	50,434	2.11 %	54,805	2.82 %
Commercial:				
Secured	136,155	5.68 %	137,062	7.03 %
Unsecured	24,262	1.01 %	21,136	1.09 %
PPP	—	— %	22,124	1.14 %
Consumer and other	21,701	0.91 %	17,167	0.88 %
Loans held for investment, gross	2,382,275	99.46 %	1,936,066	99.45 %
Loans held for sale:				
Commercial	12,985	0.54 %	10,671	0.55 %
Total loans, gross	2,395,260	100.00 %	1,946,737	100.00 %
Net deferred loan fees	(1,764)		(1,606)	
Total loans	$ 2,393,496		$ 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, respectively. The real estate purchased with these loans is generally located in or near our market.

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

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

The following tables present the commercial real estate loan balance, associated percentage of commercial real estate concentrations 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
June 30, 2022					
Manufactured home community	$ 747,123	36.69 %	$ 1,230,952	— %	77.04 %
Retail	197,420	9.69 %	363,899	16.66 %	74.64 %
Multifamily	175,535	8.62 %	373,351	11.50 %	75.00 %
Industrial	162,421	7.98 %	380,163	10.90 %	75.00 %
Office	143,314	7.04 %	311,287	0.43 %	90.37 %
Faith-based	142,901	7.02 %	384,535	2.55 %	74.38 %
Mini storage	140,403	6.89 %	255,085	20.51 %	70.00 %
All other types[1]	327,442	16.07 %	680,152	0.50 %	153.40 %
Total	$ 2,036,559	100.00 %	$ 3,979,424	— %	153.40 %
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 LTV of impaired, collateral dependent loans was approximately 86.33% at June 30, 2022 and approximately 70.67% at December 31, 2021.

Over the past several years, we have experienced significant growth in our loan portfolio, although the relative composition of the portfolio has not changed significantly (when PPP loans are excluded). Our primary focus remains commercial real estate lending (including commercial, commercial land and development, and commercial construction), which constitutes 88.91% of loans held for investment at June 30, 2022. Commercial secured lending (consisting primarily of SBA 7(a) loans under $350,000) represents 5.72% of loans held for investment at June 30, 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 710.21% and 577.92% as of June 30, 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 June 30, 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 June 30, 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	$ 24,605	$ 205,120	$ 1,730,927	$ 75,907	$ 2,036,559
Commercial land and development	821	5,656	2,962	—	9,439
Commercial construction	3,725	30,881	35,798	—	70,404
Residential construction	2,965	3,384	726	—	7,075
Residential	1,243	8,098	15,886	1,019	26,246
Farmland	908	6,898	42,628	—	50,434
Commercial:					
Secured	29,510	27,830	87,988	3,812	149,140
Unsecured	1,217	6,871	16,174	—	24,262
PPP	—	—	—	—	—
Consumer and other	906	7,095	13,700	—	21,701
Total	$ 65,900	$ 301,833	$ 1,946,789	$ 80,738	$ 2,395,260

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 June 30, 2022:

(dollars in thousands)	Fixed Interest Rates	Floating or Adjustable Rates	Total
Real estate:			
Commercial	$ 517,542	$ 1,519,017	$ 2,036,559
Commercial land and development	1,533	7,906	9,439
Commercial construction	3,031	67,373	70,404
Residential construction	—	7,075	7,075
Residential	2,143	24,103	26,246
Farmland	3,890	46,544	50,434
Commercial:			
Secured	36,221	112,919	149,140
Unsecured	20,575	3,687	24,262
PPP	—	—	—
Consumer and other	21,701	—	21,701
Total	$ 606,636	$ 1,788,624	$ 2,395,260

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's assessment of 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 June 30, 2022, two borrowing relationships with two loans totaling $0.1 million were in a COVID-19 deferment period, and four loans totaling $12.1 million had been in a COVID-19 deferment period in the first quarter of 2022 but were not in such deferment as of June 30, 2022. None of the loans that received COVID-19 deferments in the second 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 six months of 2022, the SBA made payments under this program on 29 of our SBA 7(a) loans, totaling $0.2 million in principal and interest. As of June 30, 2022, the principal outstanding on loans that received one or more of these payments under the CARES Act was $5.7 million.

SBA Loans

During the three and six months ended June 30, 2022, the Company sold 41 and 91 SBA 7(a) loans, respectively, with government guaranteed portions totaling $14.0 million and $25.7 million, respectively. The Company received gross proceeds of $14.9 million and $27.5 million, respectively, on the loans sold during the three and six months ended June 30, 2022, resulting in the recognition of net gains on sale of $0.8 million and $1.7 million during the three and six months ended June 30, 2022, respectively. The Company did not sell any PPP loans during 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)	**June 30, 2022**	**December 31, 2021**
Non-accrual loans:		
Real estate:		
Commercial	$ 114	$ 122
Residential	176	178
Commercial:		
Secured	152	288
Total non-accrual loans	442	588
Loans past due 90 days or more and still accruing:		
Total loans past due and still accruing	—	—
Total nonperforming loans	442	588
Real estate owned	—	—
Total nonperforming assets	$ 442	$ 588
COVID-19 deferments	$ 81	$ 12,156
Performing TDRs (not included above)	$ —	$ —
Allowance for loan losses to period end nonperforming loans	5,834.88 %	3,954.30 %
Nonperforming loans to loans held for investment[1]	0.02 %	0.03 %
Nonperforming assets to total assets	0.02 %	0.02 %
Nonperforming loans plus performing TDRs to loans held for investment[1]	0.02 %	0.03 %
COVID-19 deferments to loans held for investment[1]	— %	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 decreased from 0.03% as of December 31, 2021 to 0.02% as of June 30, 2022, primarily due to a decrease in nonperforming commercial secured loans and overall loan growth period-over-period.

The ratio of the allowance for loan losses to nonperforming loans increased from 3,954.30% as of December 31, 2021 to 5,834.88% as of June 30, 2022. The increase was primarily due to an increase in the allowance for loan losses from December 31, 2021 to June 30, 2022 related to increased reserves based on loan growth and economic conditions during the six months ended June 30, 2022, combined with a decrease in commercial secured non-accrual loans from December 31, 2021 to June 30, 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
June 30, 2022					
Real estate:					
Commercial	$ 2,020,665	$ 15,006	$ 888	$ —	$ 2,036,559
Commercial land and development	9,439	—	—	—	9,439
Commercial construction	64,504	5,900	—	—	70,404
Residential construction	7,075	—	—	—	7,075
Residential	26,070	—	176	—	26,246
Farmland	50,434	—	—	—	50,434
Commercial:					
Secured	135,071	932	152	—	136,155
Unsecured	24,262	—	—	—	24,262
PPP	—	—	—	—	—
Consumer	21,674	—	27	—	21,701
Total	$ 2,359,194	$ 21,838	$ 1,243	$ —	$ 2,382,275
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, increased to $23.1 million at June 30, 2022 from $19.3 million at December 31, 2021. Loans designated as watch increased while loans designated substandard decreased period-over-period, resulting in a decrease in the reserve overall since substandard loan designations are less favorable than watch designations, and therefore result in more significant reserves. There were no loans with doubtful risk grades at June 30, 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 June 30, 2022, the Company's allowance for loan losses was $25.8 million, as compared to $23.2 million at December 31, 2021. The $2.6 million increase is due to a $3.2 million provision for loan losses recorded for the six months ended June 30, 2022, partially offset by net charge-offs of $0.7 million during the first six months of 2022.

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

	June 30, 2022		December 31, 2021	
(dollars in thousands)	**Dollars**	**% of Total**	**Dollars**	**% of Total**
Collectively evaluated for impairment:				
Real estate:				
Commercial	$ 16,621	64.46 %	$ 12,869	55.37 %
Commercial land and development	68	0.26 %	50	0.22 %
Commercial construction	508	1.97 %	371	1.60 %
Residential construction	51	0.20 %	50	0.22 %
Residential	188	0.73 %	192	0.83 %
Farmland	616	2.39 %	645	2.78 %
Commercial:				
Secured	6,132	23.78 %	6,687	28.77 %
Unsecured	265	1.03 %	207	0.89 %
PPP	—	— %	—	— %
Consumer and other	537	2.08 %	889	3.82 %
Unallocated	648	2.51 %	1,111	4.78 %
	25,634	99.41 %	23,071	99.28 %
Individually evaluated for impairment	152	0.59 %	172	0.72 %
Total allowance for loan losses	$ 25,786	100.00 %	$ 23,243	100.00 %

The ratio of allowance for loan losses to total loans held for investment was 1.08% at June 30, 2022, compared to 1.20% at December 31, 2021. Excluding PPP loans, the ratios of the allowance for loan losses to total loans held for investment were 1.08% and 1.22% at June 30, 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 $0.4 million, or 0.02% of total loans held for investment, at June 30, 2022, decreasing 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			
	June 30, 2022		June 30, 2021	
(dollars in thousands)	Activity	% of Average Loans Held for Investment	Activity	% of Average Loans Held for Investment
Average loans held for investment	$ 2,217,426		$ 1,575,243	
Allowance for loan losses (beginning of period)	$ 23,904		$ 22,271	
Net (charge-offs) recoveries:				
Real estate:				
Commercial	—	— %	—	— %
Commercial land and development	—	— %	—	— %
Commercial construction	—	— %	—	— %
Residential construction	—	— %	—	— %
Residential	—	— %	—	— %
Farmland	—	— %	—	— %
Commercial:				
Secured	(233)	(0.01)%	(136)	(0.01)%
Unsecured	—	— %	—	— %
PPP	(21)	— %	—	— %
Consumer and other	(114)	(0.01)%	18	— %
Net charge-offs	(368)	(0.02)%	(118)	(0.01)%
Provision for loan losses	2,250		—	
Allowance for loan losses (end of period)	$ 25,786		$ 22,153	
Loans held for investment	$ 2,380,511		$ 1,585,462	
Allowance for loan losses to loans held for investment	1.08 %		1.40 %	

	As of and for the six months ended			
	June 30, 2022		June 30, 2021	
(dollars in thousands)	Activity	% of Average Loans Held for Investment	Activity	% of Average Loans Held for Investment
Average loans held for investment	$ 2,093,891		$ 1,549,580	
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	(497)	(0.02)%	(306)	(0.02)%
Unsecured	—	— %	—	— %
PPP	(21)	— %	—	— %
Consumer and other	(139)	(0.01)%	70	— %
Net charge-offs	(657)	(0.03)%	(236)	(0.02)%
Provision for loan losses	3,200		200	
Allowance for loan losses (end of period)	$ 25,786		$ 22,153	
Loans held for investment	$ 2,380,511		$ 1,585,462	
Allowance for loan losses to loans held for investment	1.08 %		1.40 %	

The allowance for loan losses to loans held for investment decreased from 1.40% as of June 30, 2021 to 1.08% as of June 30, 2022. The decrease was primarily due to a 50.15% increase in loans held for investment period-over-period, while the allowance for loan losses increased by only 16.40% period-over-period. Increases in the allowance for loan losses as a result of overall loan growth were partially offset by a reduction in reserves related to loans designated as watch and substandard between June 30, 2021 and June 30, 2022.

Net charge-offs as a percent of average loans held for investment increased from 0.01% to 0.02% for the three months ended June 30, 2021 and June 30, 2022, respectively. The net charge-off rate related to the commercial secured portfolio remained stable at 0.01% for the three months ended June 30, 2021 and 2022, while the net charge-off rate related to the consumer and other portfolio increased to 0.01% period-over-period.

Net charge-offs as a percent of average loans held for investment increased from 0.02% to 0.03% for the six months ended June 30, 2021 and June 30, 2022, respectively. The net charge-off rate related to the commercial secured portfolio remained stable at 0.02% for the six months ended June 30, 2021 and 2022, while the net charge-off rate related to the consumer and other portfolio increased to 0.01% period-over-period.

Liabilities

During the first six months of 2022, total liabilities increased by $281.2 million from $2.3 billion as of December 31, 2021 to $2.6 billion as of June 30, 2022. This increase was primarily due to an increase in total deposits of $215.4 million, comprised of increases of $103.9 million in non-interest-bearing deposits and $111.5 million in interest-bearing deposits, as well as an increase in FHLB advances of $60.0 million.

Deposits

Representing 96.10% of our total liabilities as of June 30, 2022, deposits are our primary source of funding for our business operations.

Total deposits increased by $215.4 million, or 9.42%, to $2.5 billion at June 30, 2022 from $2.3 billion at December 31, 2021. Deposit increases were primarily attributable to an increase in the number of new relationships, as well as normal fluctuations in some of our larger accounts. Non-interest-bearing deposits increased by $103.9 million from December 31, 2021 to $1.0 billion and represented 40.22% of total deposits at June 30, 2022, compared to 39.46% of total deposits at December 31, 2021. Our loan to deposit ratio was 95.69% at June 30, 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					
	June 30, 2022			June 30, 2021		
(dollars in thousands)	Average Amount	Average Rate Paid	% of Total Deposits	Average Amount	Average Rate Paid	% of Total Deposits
Interest-bearing transaction accounts	$ 255,665	0.10 %	10.32 %	$ 150,732	0.10 %	7.39 %
Money market and savings accounts	1,078,233	0.27 %	43.51 %	1,024,895	0.19 %	50.23 %
Time accounts	174,991	0.55 %	7.06 %	36,741	0.40 %	1.80 %
Demand accounts	969,053	— %	39.11 %	827,992	— %	40.58 %
Total deposits	$ 2,477,942	0.17 %	100.00 %	$ 2,040,360	0.11 %	100.00 %

	For the six months ended					
	June 30, 2022			June 30, 2021		
(dollars in thousands)	Average Amount	Average Rate Paid	% of Total Deposits	Average Amount	Average Rate Paid	% of Total Deposits
Interest-bearing transaction accounts	$ 265,962	0.10 %	11.05 %	$ 152,694	0.10 %	7.80 %
Money market and savings accounts	1,044,854	0.21 %	43.39 %	976,844	0.23 %	49.89 %
Time accounts	151,454	0.43 %	6.29 %	41,430	0.49 %	2.12 %
Demand accounts	945,511	— %	39.27 %	786,955	— %	40.19 %
Total deposits	$ 2,407,781	0.13 %	100.00 %	$ 1,957,923	0.13 %	100.00 %

Uninsured deposits totaled $1.4 billion and $1.3 billion at June 30, 2022 and December 31, 2021, respectively.

As of June 30, 2022, our 30 largest deposit relationships, each accounting for more than $10.0 million, totaled $966.1 million, or 38.62% 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)	June 30, 2022	December 31, 2021
Municipalities	$ 476,131	$ 424,483
Non-profits	195,963	181,080
Businesses	294,005	307,132
Total	$ 966,099	$ 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 $175.5 million, or 7.02% of total deposits, at June 30, 2022 and $155.0 million, or 6.78% of total deposits, at December 31, 2021.

The following table sets forth the maturity of time deposits as of June 30, 2022:

(dollars in thousands)	$250,000 or Greater	Less than $250,000	Total	Uninsured Portion
Remaining maturity:				
Three months or less	$ 180,001	$ 4,095	$ 184,096	$ 178,751
Over three through six months	—	4,751	4,751	—
Over six through twelve months	7,189	6,854	14,043	5,189
Over twelve months	438	678	1,116	188
Total	$ 187,628	$ 16,378	$ 204,006	$ 184,128

FHLB Advances and Other Borrowings

From time to time, we utilize short-term collateralized FHLB borrowings to maintain adequate liquidity. There were borrowings of $60.0 million outstanding as of June 30, 2022 and no borrowings outstanding as of 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 June 30, 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 (6.04% as of June 30, 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 (5.54% as of June 30, 2022) through maturity				

Shareholders' Equity

Shareholders' equity totaled $233.2 million at June 30, 2022 and $235.0 million at December 31, 2021. The decrease in shareholders' equity was primarily attributable to net income recognized of $19.8 million, offset by a net decline of $12.2 million in other comprehensive income and $10.1 million in cash distributions paid during the six months ended June 30, 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 June 30, 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 six months ended June 30, 2022, we had cash outflows of $436.2 million in loan originations and advances, net of principal collected, and $37.0 million in loans originated for sale.

Additionally, we enter into commitments to extend credit in the ordinary course of business, such as commitments to fund new loans and undisbursed construction funds. While these commitments represent contractual cash requirements, a portion of these commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. At June 30, 2022, total off-balance sheet commitments totaled $280.0 million. We expect to fund these commitments to the extent utilized primarily through the repayment of existing loans, deposit growth, and liquid assets.

Deposits

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

Our deposits are primarily made up of money market and non-interest-bearing demand deposits. Aside from commercial and business clients, a significant portion of our deposits are from municipalities and non-profit organizations. Cash flows from deposits are impacted by the timing and amount of customer deposits, changes in market rates, and collateral availability.

During the six months ended June 30, 2022, we had significant cash inflows related to an increase in deposits of $215.4 million, primarily as a result of an increase in the number of new relationships and fluctuations in existing accounts.

Over the next twelve months, approximately $202.9 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 totaled $126.9 million at June 30, 2022. At June 30, 2022, 52.07% and 29.29% 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 $4.4 million from our securities for the remainder of 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 six months ended June 30, 2022, we had cash proceeds from sales, maturities, calls, and prepayments of securities of $10.6 million, offset by cash outflows of $1.6 million related to investment securities purchased. Additionally, at June 30, 2022, securities available-for-sale totaled $122.4 million, of which $21.7 million have been pledged as collateral for borrowings and other commitments.

Future Contractual Obligations

Our estimated future obligations as of June 30, 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 $0.5 million and a long-term obligation of $4.5 million. We also have a current obligation of $188.8 million and a long-term obligation of $15.2 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 contract for core processing services. While the actual obligation is unknown and dependent on certain factors, including volume and activity, when using our 2021 average monthly expense extrapolated over the remaining life of the contract, we estimate that our current obligation under this contract is $1.1 million and our long-term obligation is zero until the contract is renewed.

FHLB Financing

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At June 30, 2022, the Bank had outstanding borrowings of $60.0 million and a total financing availability of $280.0 million, net of letters of credit issued of $545.5 million.

Dividends

A use of liquidity for the Company is shareholder dividends. The Company paid dividends to its shareholders totaling $2.6 million during the three months ended June 30, 2022, and $10.1 million during the six months ended June 30, 2022, 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 with respect to our common stock subject to our board of directors’ discretion to modify or terminate this practice at any time and for any reason without prior notice. We believe our quarterly dividend rate per share, as approved by our board of directors, enables us to balance our multiple objectives of managing our business and returning a portion of our earnings to our shareholders. Assuming continued payment during 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 if there are no increases or decreases in the number of shares, and given that unvested RSAs share equally in dividends with outstanding common stock.

Impact of Inflation

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

Historical Information

The following table summarizes our consolidated cash flow activities:

(dollars in thousands)	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change
Net cash provided by operating activities	$ 11,332	$ 21,769	$ (10,437)
Net cash used in investing activities	(431,197)	(122,410)	(308,787)
Net cash provided by financing activities	265,294	346,752	(81,458)

Operating Activities

Net cash provided by operating activities decreased by $10.4 million for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021, primarily due to increases in loans originated for sale and deferred taxes, partially offset by an increase in proceeds from sale of loans and the provision for loan losses. 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 $308.8 million for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021, primarily due to an increase in loan originations, net of repayments, and a decrease in proceeds from the sale of securities available-for-sale, partially offset by a decrease in purchases of securities available-for-sale.

Financing Activities

Net cash provided by financing activities decreased by $81.5 million for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021, primarily from proceeds from issuance of stock during our IPO that occurred during the six months ended June 30, 2021, but did not recur during the six months ended June 30, 2022.

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 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 June 30, 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 June 30, 2022 and December 31, 2021 for Bancorp and the Bank are presented in the following tables. As of June 30, 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**
June 30, 2022						
Total capital (to risk-weighted assets)	$ 297,999	11.77 %	$ 202,548	≥ 8.00 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	$ 243,668	9.62 %	$ 151,976	≥ 6.00 %	N/A	N/A
Common equity tier 1 capital (to risk-weighted assets)	$ 243,668	9.62 %	$ 113,982	≥ 4.50 %	N/A	N/A
Tier 1 leverage	$ 243,668	8.81 %	$ 110,632	≥ 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**
June 30, 2022						
Total capital (to risk-weighted assets)	$ 292,350	11.55 %	$ 202,494	≥ 8.00 %	$ 253,117	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)	$ 266,439	10.53 %	$ 151,817	≥ 6.00 %	$ 202,423	≥ 8.00 %
Common equity tier 1 capital (to risk-weighted assets)	$ 266,439	10.53 %	$ 113,863	≥ 4.50 %	$ 164,468	≥ 6.50 %
Tier 1 leverage	$ 266,439	9.64 %	$ 110,555	≥ 4.00 %	$ 138,194	≥ 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 our 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)	**June 30, 2022**	**December 31, 2021**
Allowance for loan losses (numerator)	$ 25,786	$ 23,243
Total loans held for investment	2,380,511	1,934,460
Less: PPP loans	—	22,124
Total loans held for investment, excluding PPP loans (denominator)	$ 2,380,511	$ 1,912,336
Allowance for loan losses to total loans held for investment, excluding PPP loans	1.08 %	1.22 %

	For the three months ended		**For the six months ended**	
Average loans held for investment and sale, excluding PPP loans (dollars in thousands)	**June 30, 2022**	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
Average loans held for investment and sale	$ 2,227,215	$ 1,578,438	$ 2,102,382	$ 1,552,364
Less: average PPP loans	427	158,568	4,641	167,362
Average loans held for investment and sale, excluding PPP loans	$ 2,226,788	$ 1,419,870	$ 2,097,741	$ 1,385,002

Average loan yield, excluding PPP loans (dollars in thousands)	For the three months ended June 30, 2022	June 30, 2021	For the six months ended June 30, 2022	June 30, 2021
Interest and fee income on loans	$ 24,841	$ 18,626	$ 46,932	$ 37,239
Less: interest and fee income on PPP loans	25	1,771	635	4,172
Interest and fee income on loans, excluding PPP loans	24,816	16,855	46,297	33,067
Annualized interest and fee income on loans, excluding PPP loans (numerator)	$ 99,537	$ 67,605	$ 93,361	$ 66,682
Average loans held for investment and sale	$ 2,227,215	$ 1,578,438	$ 2,102,382	$ 1,552,364
Less: average PPP loans	427	158,568	4,641	167,362
Average loans held for investment and sale, excluding PPP loans (denominator)	$ 2,226,788	$ 1,419,870	$ 2,097,741	$ 1,385,002
Average loan yield, excluding PPP loans	4.47 %	4.76 %	4.45 %	4.81 %

Recent Legislative and Regulatory Developments

On June 21, 2022, the FDIC issued a proposed rule to increase initial base deposit insurance assessment rates for insured depository institutions by two basis points, beginning with the first quarterly assessment period of 2023. The proposed assessment rate schedules would remain in effect unless and until the reserve ratio of the Deposit Insurance Fund meets or exceeds two percent. If the proposed rule is finalized as proposed, the FDIC insurance costs of insured depository institutions, including the Bank, would generally increase.

On May 5, 2022, the federal banking agencies issued a proposed rule that would substantially revise how they evaluate an insured depository institution's record of satisfying the credit needs of its entire community, including low- and moderate-income individuals and neighborhoods, under the Community Reinvestment Act. Management is evaluating the potential impact of the proposed rule on the Bank.

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 June 30, 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 June 30, 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					Filed
4.1	Form of Common Stock Certificate of Five Star Bancorp	S-1	333-255143	4.1	April 26, 2021	
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 (registrant)
August 11, 2022	*/s/ James Beckwith*
Date	James Beckwith President & Chief Executive Officer (Principal Executive Officer)
August 11, 2022	*/s/ Heather Luck*
Date	Heather Luck Senior Vice President & Chief Financial Officer (Principal Financial Officer)

AMENDED AND RESTATED BYLAWS

OF

FIVE STAR BANCORP

(As adopted on May 19, 2022)

ARTICLE I

Offices

Section 1.1. Principal Office. The principal executive office of the corporation is hereby located at such place as the board of directors (the "Board") shall determine. The Board is hereby granted full power and authority to change said principal executive office from one location to another.

Section 1.2. Other Offices. Other business offices may, at any time, be established by the Board at such other places as it deems appropriate.

ARTICLE II

Meetings of Shareholders

Section 2.1. Place of Meetings. Meetings of shareholders may be held at such place within or outside the state of California, or at no place, as designated by the Board, or by means of remote communication. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation.

Section 2.2. Annual Meeting. (a) The annual meeting of shareholders shall be held for the election of directors on a date and at a time designated by the Board. The date so designated shall be within fifteen months after the last annual meeting. At such meeting, directors shall be elected, and any other proper business within the power of the shareholders may be transacted. The Board may postpone, reschedule or cancel any annual meeting.

To the extent permitted by applicable law, nominations of persons for election to the Board and the proposal of business to be considered by the shareholders may be made at a meeting of shareholders: (i) pursuant to the corporation's notice of meeting of shareholders (with respect to business other than nominations); (ii) brought specifically by or at the direction of the Board; or (iii) by any shareholder of the corporation who was a shareholder of record at the time of giving the shareholder's notice provided in the following paragraph, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 2.2. For the avoidance of doubt, clause (iii) above shall be the exclusive means for a shareholder to make nominations and submit other business (other than matters properly included in the corporation's notice of meeting of shareholders and proxy statement under Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "1934 Act")) before an annual meeting of shareholders.

(b) At an annual meeting of the shareholders, only such business shall be conducted as is a proper matter for shareholder action under California law and as shall have been properly brought before the meeting in accordance with the procedures below.

(i) For nominations for the election to the Board to be properly brought before an annual meeting by a shareholder pursuant to clause (iii) of Section 2.2(a) of these bylaws, the shareholder must deliver written notice to the secretary at the principal executive offices of the corporation on a timely basis as set forth in Section 2.2(b)(iii) and must update and supplement such written notice on a timely basis as set forth in Section 2.2(c). Such shareholder's notice shall set forth: (A) as to each nominee such shareholder proposes to nominate at the meeting: (1) the name, age, business address and residence address of such nominee, (2) the principal occupation or employment of such nominee, (3) the class and number of shares of each class of capital stock of the corporation which are owned of record and beneficially by such nominee, (4) the date or dates on which such shares were acquired and the investment intent of such acquisition, (5) a statement that such nominee agrees to tender an irrevocable resignation to the secretary, to be effective upon (x) such person's failure to receive the required vote for re-election in any uncontested election at which such person would face re-election and (y) acceptance of such resignation by the Board and (6) such other information concerning such nominee as would be required to be disclosed in a proxy statement soliciting proxies for the election of such nominee as a director in an election contest (even if an election contest is not involved), or that is otherwise required to be disclosed pursuant to Section 14 of the 1934 Act (including such person's written consent to being named as a nominee and to serving as a director if elected); and (B) the information required by Section 2.2(b)(iv). The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.

(ii) Other than proposals sought to be included in the corporation's proxy materials pursuant to Rule 14a-8 under the 1934 Act, for business other than nominations for the election to the Board of Directors to be properly brought before an annual meeting by a shareholder pursuant to clause (iii) of Section 2.2(a) of these bylaws, the shareholder must deliver written notice to the secretary at the principal executive offices of the corporation on a timely basis as set forth in Section 2.2(b)(iii), and must update and supplement such written notice on a timely basis as set forth in Section 2.2(c). Such shareholder's notice shall set forth: (A) as to each matter such shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, and any material interest in such business of any Proponent (as defined below) (including any anticipated benefit of such business to any Proponent other than solely as a result of its ownership of the corporation's capital stock, that is material to any Proponent individually, or to the Proponents in the aggregate); and (B) the information required by Section 2.2(b)(iv).

(iii) To be timely, the written notice required by Section 2.2(b)(i) or 2.2(b)(ii) must be received by the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided that, subject to the last sentence of this Section 2.2(b)(iii), in the event that the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the shareholder to be timely must be so received (A) not earlier than the close of business on the 120th day prior to such annual meeting and (B) not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. In no event shall an adjournment or a postponement of an annual meeting for which notice has been given, or the public announcement thereof has been made, commence a new time period for the giving of a shareholder's notice as described above.

(iv) The written notice required by Section 2.2(b)(i) or 2.2(b)(ii) shall also set forth, as of the date of the notice and as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (each, a "Proponent" and collectively, the "Proponents"): (A) the name and address of each Proponent, as they appear on the corporation's books; (B) the class, series and number of shares of the corporation that are owned beneficially and of record by each Proponent; (C) a description of any agreement, arrangement or understanding (whether oral or in writing) with respect to such nomination or proposal between or among any Proponent and any of its affiliates or associates, and any others (including their names) acting in concert, or otherwise under the agreement, arrangement or understanding, with any of the foregoing; (D) a representation that the Proponents are holders of record or beneficial owners, as the case may be, of shares of the corporation entitled to vote at the meeting and intend to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice (with respect to a notice under Section 2.2(b)(i)) or to propose the business that is specified in the notice (with respect to a notice under Section 2.2(b)(ii)); (E) a representation as to whether the Proponents intend to deliver a proxy statement and form of proxy to holders of a sufficient number of holders of the corporation's voting shares to elect such nominee or nominees (with respect to a notice under Section 2.2(b)(i)) or to carry such proposal (with respect to a notice under Section 2.2(b)(ii)); (F) to the extent known by any Proponent, the name and address of any other shareholder supporting the proposal on the date of such shareholder's notice; and (G) a description of all Derivative Transactions (as defined below) by each Proponent during the previous twelve month period, including the date of the transactions and the class, series and number of securities involved in, and the material economic terms of, such Derivative Transactions.

(c) A shareholder providing written notice required by Section 2.2(b)(i) or 2.2(b)(ii) shall update and supplement such notice in writing, if necessary, so that the information provided or required to be provided in such notice is true and correct in all material respects as of (i) the record date for the meeting and (ii) the date that is five business days prior to the meeting and, in the event of any adjournment or postponement thereof, five business days prior to such adjourned or postponed meeting. In the case of an update and supplement pursuant to clause (i) of this Section 2.2(c), such update and supplement shall be received by the secretary at the principal executive offices of the corporation not later than five business days after the record date for the meeting. In the case of an update and supplement pursuant to clause (ii) of this Section 2.2(c), such update and supplement shall be received by the secretary at the principal executive offices of the corporation not later than two business days prior to the date for the meeting, and, in the event of any adjournment or postponement thereof, two business days prior to such adjourned or postponed meeting.

(d) Notwithstanding anything in Section 2.2(b)(iii) to the contrary, in the event that the number of directors of the Board of the corporation is increased and there is no public announcement of the appointment of a director, or, if no appointment was made, of the vacancy, made by the corporation at least ten days before the last day a shareholder may deliver a notice of nomination in accordance with Section 2.2(b)(iii), a shareholder's notice required by this Section 2.2 and which complies with the requirements in Section 2.2(b)(i), other than the timing requirements in Section 2.2(b)(iii), shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the secretary at the principal executive offices of the corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the corporation.

(e) A person shall not be eligible for election as a director unless the person is nominated either in accordance with clause (ii) of Section 2.2(a), or in accordance with clause (iii) of

Section 2.2(a). Except as otherwise required by law, the chairperson of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in these bylaws and, if any proposed nomination or business is not in compliance with these bylaws, or the Proponent does not act in accordance with the representations in Sections 2.2(b)(iv)(D) and 2.2(b)(iv)(E), to declare that such proposal or nomination shall not be presented for shareholder action at the meeting and shall be disregarded, notwithstanding that proxies in respect of such nominations or such business may have been solicited or received.

(f) Notwithstanding the foregoing provisions of this Section 2.2, in order to include information with respect to a shareholder proposal in the proxy statement and form of proxy for a shareholders' meeting, a shareholder must also comply with all applicable requirements of the 1934 Act. Nothing in these bylaws shall be deemed to affect any rights of shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the 1934 Act; provided that any references in these bylaws to the 1934 Act are not intended to and shall not limit the requirements applicable to proposals and/or nominations to be considered pursuant to Section 2.2(a)(iii) of these bylaws.

(g) For purposes of Section 2.2,

(i) "affiliates" and "associates" shall have the meanings set forth in Rule 405 under the Securities Act of 1933, as amended, and Rule 12b-2 under the 1934 Act.

(ii) a "Derivative Transaction" means any agreement, arrangement, interest or understanding entered into by, or on behalf or for the benefit of, any Proponent or any of its affiliates or associates, whether record or beneficial:

(A) the value of which is derived in whole or in part from the value of any class or series of shares or other securities of the corporation,

(B) which otherwise provides any direct or indirect opportunity to gain or share in any gain derived from a change in the value of securities of the corporation,

(C) the effect or intent of which is to mitigate loss, manage risk or benefit of security value or price changes, or

(D) which provides the right to vote or increase or decrease the voting power of, such Proponent, or any of its affiliates or associates, with respect to any securities of the corporation, which agreement, arrangement, interest or understanding may include, without limitation, any option, warrant, debt position, note, bond, convertible security, swap, stock appreciation right, short position, profit interest, hedge, right to dividends, voting agreement, performance-related fee or arrangement to borrow or lend shares (whether or not subject to payment, settlement, exercise or conversion in any such class or series), and any proportionate interest of such Proponent in the securities of the corporation held by any general or limited partnership, or any limited liability company, of which such Proponent is, directly or indirectly, a general partner or managing member; and

(iii) "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the United States Securities and Exchange Commission (the "SEC") pursuant to Section 13, 14 or 15(d) of the 1934 Act.

Section 2.3. **Special Meetings.** Special meetings of the shareholders may be called at any time by the Board, the chairperson of the Board, the president, or by the holders of shares entitled to cast not less than ten percent of the votes at such meeting. If a special meeting is called by any person or persons other than the Board, the request shall be in writing, specifying the time and place of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or by registered mail to the chairperson of the Board, the president, any vice president or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, not less than 35 nor more than 60 days after receipt of the request. If the notice is not given within 20 days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing in this paragraph shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board may be held.

Section 2.4. **Notice of Meetings.** Electronic notice, in accordance with Section 2.5, of each annual or special meeting of shareholders shall be given not less than ten nor more than 60 days before the date of the meeting to each shareholder entitled to vote thereat. Such notice shall state the place, date and hour of the meeting and (a) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (b) in the case of the annual meeting, those matters which the Board, at the time of the mailing of the notice, intends to present for action by the shareholders, but, subject to the provisions of applicable law, any proper matter may be presented at the meeting for such action. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by the Board for election.

If action is proposed to be taken at any meeting for approval of (a) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the California Corporations Code, as amended (the "Code"), (b) an amendment of the articles of incorporation, pursuant to Section 902 of the Code, (c) a reorganization of the corporation, pursuant to Section 1201 of the Code, (d) a voluntary dissolution of the corporation, pursuant to Section 1900 of the Code, or (e) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall also state the general nature of that proposal.

Section 2.5. **Manner of Giving Notice.** Notice of a shareholders' meeting shall be given either in writing or by electronic transmission. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the shareholder at the shareholder's address as it appears on the records of the corporation. If sent via electronic transmission, notice is given as of the sending time recorded at the time of transmission. Notice of the time, place, if any, and purpose of any meeting of shareholders (to the extent required) may be waived in writing, signed by the person entitled to notice thereof, or by electronic transmission by such person, either before or after such meeting, and will be waived by any shareholder by his or her attendance thereat in person, by remote communication, if applicable, or by proxy, except when the shareholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any shareholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

Section 2.6. **Quorum.** A majority of the shares entitled to vote represented in person or by proxy, shall constitute a quorum at any meeting of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

<u>Section 2.7</u>. <u>Adjourned Meeting and Notice Thereof</u>. Any shareholders' meeting, whether or not a quorum is present, may be adjourned from time to time, either by the chairperson of the meeting or by the vote of a majority of the shares represented either in person or by proxy at the meeting. At the adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, when any shareholders' meeting is adjourned for more than 45 days from the date set for the original meeting, or, if after adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

<u>Section 2.8</u>. <u>Voting</u>. The shareholders entitled to notice of any meeting or to vote at any such meeting shall be only persons in whose name shares stand on the stock records of the corporation as of the record date determined in accordance with Section 2.9. Every person entitled to vote shall have the right to do so either in person, by remote communication, if applicable, or by an agent or agents authorized by a proxy granted in accordance with Section 2.12. An agent so appointed need not be a shareholder.

Voting of shares of the corporation shall in all cases be subject to the provisions of Sections 700 through 711, inclusive, of the Code.

On any matter any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal (other than the election of directors), but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares that the shareholder is entitled to vote. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter (which shares voting affirmatively shall also constitute at least a majority of the required quorum), other than the election of directors, shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by the Code or by the articles of incorporation.

Shareholders are prohibited from cumulating their votes in any election of directors of the corporation. In any election of directors, the candidates receiving the highest number of affirmative votes of the shares entitled to be voted for them, up to the number of directors to be elected, shall be elected. Votes against the director and votes withheld shall have no legal effect.

<u>Section 2.9</u>. <u>Record Date</u>.

(a) The Board may fix, in advance, a record date for the determination of the shareholders entitled to notice of any meeting or to vote or entitled to give written consent to corporate action without a meeting. The record date so fixed shall be not more than 60 days nor less than ten days prior to the date of the meeting. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting or to give written consent to corporate action without a meeting, as the case may be, notwithstanding any transfer of shares on the books of the corporation after the record date. A record date for a meeting of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting. The Board shall fix a new record date if the meeting is adjourned for more than 45 days. If no record date is fixed by the Board, (i) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day preceding the day on which notice of the meeting is given or, if notice is waived, the close of business on the business day preceding the day on which the meeting is held, and (ii) the record date for determining shareholders entitled to give consent pursuant to Section 2.11, when no prior action by the Board has been taken, shall be the day on which the first written consent is given.

(b) The Board may fix, in advance, a record date for the determination of the shareholders entitled to receive payment of any dividend or other distribution, or allotment of any rights, or to exercise any rights in respect of any other lawful action. The record date so fixed shall be not more than 60 days prior to any such action. When a record date is so fixed, only shareholders of record on that date are entitled to receive the dividend, distribution, or allotment of rights, or to exercise rights, as the case may be, notwithstanding any transfer of shares on the books of the corporation after the record date. If no record date is fixed by the Board, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the 60th day prior to the date of such other action, whichever is later.

Section 2.10. Consent of Absentees. The transactions of any meeting of shareholders, however called and noticed, and wherever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, who was not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the Code to be included in the notice but not so included, if such objection is expressly made at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of shareholders need be specified in any written waiver of notice, consent to the holding of the meeting or approval of the minutes of the meeting, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 2.4, the waiver of notice, consent or approval shall state the general nature of the proposal.

Section 2.11. Action by Written Consent Without a Meeting. Subject to Section 603 of the Code, any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, is signed by the holders of the outstanding shares, or their proxies, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. All such consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records; provided that (a) unless the consents of all shareholders entitled to vote have been solicited in writing, notice of any shareholder approval without a meeting by less than unanimous consent shall be given, as provided by Section 603(b) of the Code, and (b) in the case of election of directors, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors; provided that subject to applicable law, a director may be elected at any time to fill a vacancy on the Board that has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors. Any written consent may be revoked by a writing received by the secretary of the corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

Section 2.12. **Proxies.** Every person entitled to vote shares or execute written consents has the right to do so either in person or by one or more persons authorized by a written proxy executed and dated by such shareholder and filed with the secretary of the corporation prior to the convening of any meeting of the shareholders at which any such proxy is to be used or prior to the use of such written consent. A validly executed proxy which does not state that it is irrevocable continues in full force and effect unless: (a) revoked by the person executing it prior to the vote pursuant thereto, by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by the person executing the prior proxy and presented to the meeting, or as to any meeting of shareholders, by attendance at such meeting and voting in person by the person executing the proxy; or (b) written notice of the death or incapacity of the maker of the proxy is received by the corporation before the vote pursuant thereto is counted; provided that no proxy shall be valid after the expiration of 11 months from the date of its execution unless otherwise provided in the proxy.

Section 2.13. **Inspectors of Election.** In advance of any meeting of shareholders, the Board may appoint any persons other than nominees for office as inspectors of election to act at such meeting and any adjournment thereof. If no inspectors of election are so appointed, or if any persons so appointed fail to appear or refuse to act, the chairperson of any such meeting may, and on the request of any shareholder or shareholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one or three. If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present shall determine whether one or three inspectors are to be appointed.

The duties of such inspectors shall be as prescribed by Section 707(b) of the Code and shall include: determining the number of shares outstanding and the voting power of each; determining the shares represented at the meeting; determining the existence of a quorum; determining the authenticity, validity and the effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining when the polls shall close; determining the result; and doing such acts as may be proper to conduct the election or vote with fairness to all shareholders. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. In the event that any person appointed as an inspector fails to appear or fails or refuses to act, the vacancy may, and on the request of any shareholder or a shareholder's proxy shall, be filled by appointment by the Board in advance of the meeting, or at the meeting by the chairperson of the Board.

Section 2.14. **Conduct of Meetings.** The president shall preside at all meetings of the shareholders and shall conduct each such meeting in a businesslike and fair manner, but shall not be obligated to follow any technical, formal or parliamentary rules or principles of procedure. The presiding officer's rulings on procedural matters shall be conclusive and binding on all shareholders, unless at the time of ruling a request for a vote is made to the shareholders entitled to vote and represented in person or by proxy at the meeting, in which case the decision of a majority of such shares shall be conclusive and binding on all shareholders. Without limiting the generality of the foregoing, the presiding officer shall have all the powers usually vested in the presiding officer of a meeting of shareholders.

ARTICLE III

Directors

Section 3.1. **Powers.** Subject to the provisions of the Code and any limitations in the articles of incorporation and these bylaws relating to actions required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board. The Board may delegate the management of the day-to-day operations of the business of the corporation to an officer, agent or other person provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Board shall have the following powers in addition to the other powers enumerated in these bylaws:

(a) to select and remove all the other officers, agents and employees of the corporation, prescribe any qualifications, powers and duties for them that are consistent with law, the articles of incorporation or these bylaws, fix their compensation, and require from them security for faithful service;

(b) to conduct, manage and control the affairs and business of the corporation and to make such rules and regulations therefor not inconsistent with law, the articles of incorporation or these bylaws, as they may deem best;

(c) to adopt, make and use a corporate seal, to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time as in their judgment they may deem best;

(d) to authorize the issuance of shares of stock of the corporation from time to time, upon such terms and for such consideration as may be lawful;

(e) to borrow money and incur indebtedness for the purposes of the corporation, and to cause to be executed and delivered therefor, in the corporate name, promissory and capital notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor and any agreements pertaining thereto;

(f) to prescribe the manner in which and the person or persons by whom any or all of the checks, drafts, notes, contracts and other corporate instruments shall be executed;

(g) to appoint and designate, by resolution adopted by a majority of the authorized number of directors, one or more committees, each consisting of two or more directors, including the appointment of alternate members of any committee who may replace any absent member at any meeting of the committee;

(h) to provide for the compensation of directors for their services as such and may provide for the payment or reimbursement of any or all expenses reasonably incurred by them in attending meetings of the Board or of any committee of the Board or in the performance of their other duties as directors;

(i) to change the principal executive and principal office for the transaction of the business of the corporation from one location to another as provided in Section 1.1 hereof; to fix and locate from time to time one or more subsidiary offices of the corporation within or outside of the State of California, as provided in Section 1.2 hereof; to designate any place within or outside of the State of California for the holding of any shareholders' meeting or meetings; and

(j) generally, to do and perform every act or thing whatever that may pertain to or be authorized by the board of directors of a corporation incorporated under the laws of the State of California.

Section 3.2. **Number and Qualification of Directors.** The authorized number of directors of the corporation shall not be less than nine nor more than seventeen, until this range is changed by an amendment of the articles of incorporation or by a bylaw amending this Section 3.2 duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote. The exact number of directors shall be fixed from time to time within the range specified in the articles of incorporation or in this Section 3.2: (i) by a resolution duly adopted by the Board or the vote of a majority of the shares entitled to vote represented at a duly held meeting of shareholders at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote; (ii) by a bylaw or amendment thereof duly adopted by the Board; or (iii) by approval of the shareholders (as defined in Section 153 of the Code).

Section 3.3. **Nominations of Directors.** Nominations for election of members of the Board may be made by the Board or by any holder of any outstanding class of capital stock of the corporation entitled to vote for the election of directors. Nominations for election of members of the Board may be made at an annual meeting of shareholders in accordance with Section 2.2.

Section 3.4. **Election and Term of Office.** The directors shall be elected at each annual meeting of shareholders, but if any annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. Each director shall hold office until the next annual meeting and until a successor has been elected and qualified. Notwithstanding the rule stated herein that directors shall be elected annually, each director continuing to serve as such at the time of an annual or special meeting of the shareholders shall nevertheless continue as a director until the expiration of the term to which he or she was previously elected by the shareholders, or until his or her earlier prior death, resignation or removal.

Section 3.5. **Vacancies.** Vacancies on the Board, except for a vacancy created by the removal of a director, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until the next annual meeting and until such director's successor has been elected and qualified. A vacancy on the Board created by the removal of a director may only be filled by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of all of the outstanding shares.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. Any such election by written consent other than to fill a vacancy created by removal requires the consent of a majority of the outstanding shares entitled to vote.

Any director may resign effective upon giving written notice to the chairperson of the Board, the president, secretary, or the Board, unless the notice specifies a later time for the effectiveness of such resignation. If the Board accepts the resignation of a director tendered to take effect at a future time, the Board or the shareholders shall have power to elect a successor to take office when the resignation is to become effective.

A vacancy or vacancies on the Board shall be deemed to exist in case of the death, resignation or removal of any director, or if the authorized number of directors is increased, or if the shareholders fail, at any annual or special meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

The Board may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of the director's term of office.

Section 3.6. Place of Meetings. Regular or special meetings of the Board shall be held at any place within or outside the state of California which has been designated in the notice of meeting or if there is no notice, at the principal executive office of the corporation, or at a place or no place, as designated by resolution of the Board or by the written consent of all members of the Board, or may be held by means of remote communication. Any regular or special meeting is valid wherever held (including by means of remote communication) if held upon written consent of all members of the Board given either before or after the meeting and filed with the secretary of the corporation.

Section 3.7. Regular Meetings. Immediately following each annual meeting of shareholders, the Board shall hold a regular meeting for the purpose of organization, any desired election of officers and the transaction of other business. Notice of this meeting shall not be required.

Other regular meetings of the Board shall be held from time to time by resolution of the Board or by written consent of all members of the Board. In the absence of such designation, regular meetings shall be held at the principal executive offices of the corporation. Special meetings of the Board may be held either at a place so designated, within the State of California, or at the principal executive office. There shall be no required notice period for any regular meeting of the Board.

Section 3.8. Special Meetings. Special meetings of the Board for any purpose or purposes may be called at any time by the chairperson of the Board, the Lead Independent Director (as defined below) (if appointed), the president, any vice president, the secretary or by any two directors.

The person or persons calling a special meeting of the Board shall, at least 24 hours before the meeting, give notice thereof by any usual means of communication. Such notice may be communicated, without limitation, in person; by telephone, facsimile, or other electronic transmission; by mail or private carrier; or in the manner and to the extent permitted by applicable law.

Special meetings may be held without notice by the waiver of notice by the directors.

Section 3.9. Quorum. A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board, unless a greater number be required by the articles of incorporation and subject to the provisions of Section 310 of the Code (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest) and Section 317(e) of the Code (as to indemnification of directors). A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 3.10. **Participation in Meetings by Remote Communication.** Members of the Board may participate in a meeting through use of a conference telephone or similar communications equipment or other means of remote communication not prohibited by applicable law, so long as all members participating in such meeting can hear one another. Participation in a meeting pursuant to this Section 3.10 constitutes presence in person at such meeting.

Section 3.11. **Waiver of Notice.** Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes of the meeting, whether before or after the meeting, or who attends the meeting without protesting, before the meeting or at its commencement, the lack of notice to such director. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 3.12. **Adjournment.** A majority of the directors present, whether or not a quorum is present, may adjourn any directors' meeting to another time and/or place. Notice of the time and/or place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four hours, in which case notice of the time and place shall be given before the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 3.13. **Action Without Meeting.** Any action required or permitted to be taken at any meeting of the Board or a duly authorized committee thereof by the Board or such duly authorized committee thereof may be taken without a meeting if all members of the Board or such committee shall consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board or committee, as the case may be. Such action by written consent shall have the same effect as a unanimous vote of the board.

Section 3.14. **Fees and Compensation.** Directors and members of committees shall be entitled to such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by the Board. This Section 3.14 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise, and receiving compensation for those services.

Section 3.15. **Rights of Inspection.** Every director of the corporation shall have the right at any reasonable time to inspect and copy all books, records and documents of the corporation and to inspect the physical properties of the corporation and also of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by agent or attorney, and the right of inspection includes the right to copy and make extracts.

Section 3.16. **Removal of Director without Cause.** Subject to any limitation imposed by applicable law, the Board or any individual director or directors may be removed with or without cause by the affirmative vote of the holders of at least 66 2/3 percent of the then-outstanding shares of capital stock of the corporation entitled to vote generally at an election of directors.

Section 3.17. **Chairperson.** The chairperson of the Board, if appointed and when present, shall preside at all meetings of the Board and exercise and perform such other powers and duties as may be assigned from time to time by the Board.

Section 3.18. **Vice Chairperson.** The vice chairperson of the Board, if appointed and when present, shall, in the absence of the chairperson of the Board, preside at all meetings of the Board and shareholders and exercise and perform such other powers and duties as may be assigned from time to time by the Board.

<u>Section 3.19</u>. <u>Lead Independent Director</u>. The chairperson of the Board, or if the chairperson is not an independent director, one of the independent directors, may be designated by the independent members of the Board as lead independent director annually or until replaced by such members of the Board ("Lead Independent Director"), but such election shall not be required. The Lead Independent Director may be removed as Lead Independent Director by vote of a majority of the independent members of the Board. If appointed, the Lead Independent Director will serve as chairperson of Board meetings in the absence of both the chairperson and the vice chairperson of the Board or otherwise at their request, preside over meetings of the independent directors, and perform such other duties as may be established or delegated by the Board from time to time. For purposes of this Section, "independent" has the meaning set forth in the Nasdaq Stock Market listing rules, unless the corporation's common stock ceases to be listed on the Nasdaq Stock Market and is listed on another exchange, in which case such exchange's definition of "independent" shall apply.

ARTICLE IV

<u>Officers</u>

<u>Section 4.1</u>. <u>Officers</u>. The officers of the corporation shall be a president, a secretary and a chief financial officer. The corporation may also have, at the discretion of the Board, a chairperson of the Board, a vice chairperson of the Board, one or more vice presidents, one or more assistant secretaries, one or more assistant financial officers and such other officers as may be elected or appointed in accordance with the provisions of Section 4.3.

<u>Section 4.2</u>. <u>Appointment</u>. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 4.3 or Section 4.5, shall be chosen by, and shall serve at the pleasure of, the Board, and shall hold their respective offices until their resignation, removal or other disqualification from service, or until their respective successors shall be appointed, subject to the rights, if any, of an officer under any contract of employment.

<u>Section 4.3</u>. <u>Subordinate Officers</u>. The Board may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each to hold office for such period, have such authority and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

<u>Section 4.4</u>. <u>Removal and Resignation</u>. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board at any time, or by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the Board or to the president, or to the secretary of the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice by the Board or by the president, or by the secretary of the corporation, or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

<u>Section 4.5</u>. <u>Vacancies</u>. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointment to such office.

<u>Section 4.6</u>. <u>President</u>. Subject to such powers, if any, as may be given by the Board to the chairperson of the Board, if there shall be such an officer, the president is the general manager and chief executive officer of the corporation and has, subject to the control of the Board, general supervision, direction and control of the business and affairs of the corporation. The president shall preside at all meetings of the shareholders and in the absence of both the chairperson of the Board and the vice chairperson, or if there be none, at all meetings of the Board. The president has the general powers and duties of management usually vested in the office of president and chief executive officer of a corporation and such other powers and duties as may be prescribed by the Board.

Section 4.7. Vice President. In the absence or disability of the president, the vice presidents in order of their rank as fixed by the Board or, if not ranked, the vice president designated by the Board, shall perform all the duties of the president and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by these bylaws, the Board, the president or the chairperson of the Board.

Section 4.8. Secretary. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may order, a book of minutes of all meetings of shareholders, the Board and its committees, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice or waivers of notice thereof given, the names of those present at the Board and committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, a copy of these bylaws of the corporation at the principal executive office or business office in accordance with Section 213 of the Code. The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, if one is appointed, a record of its shareholders, or a duplicate record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each.

The secretary shall give, or cause to be given, notice of all the meetings of the shareholders, of the Board and of any committees thereof required by these bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

Section 4.9. Assistant Secretary. The assistant secretary or the assistant secretaries, in the order of their seniority, shall, in the absence or disability of the secretary, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the secretary and shall have such additional powers and discharge such duties as may be assigned from time to time by the president or by the Board.

Section 4.10. Chief Financial Officer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of the properties and financial and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares, and shall send or cause to be sent to the shareholders of the corporation such financial statements and reports that by law or these bylaws are required to be sent to them. The books of account shall at all times be open to inspection by any director of the corporation.

The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board. The chief financial officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the president and directors, whenever they request it, an account of all transactions engaged in as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

<u>Section 4.11</u>. <u>Assistant Financial Officer</u>. The assistant financial officer or the assistant financial officers, in the order of their seniority, shall, in the absence or disability of the chief financial officer, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the chief financial officer, and shall have such additional powers and discharge such duties as may be assigned from time to time by the president or by the Board.

<u>Section 4.12</u>. <u>Salaries</u>. The salaries of the officers shall be fixed from time to time by the Board or a duly authorized committee thereof and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the corporation.

<u>Section 4.13</u>. <u>Officers Holding More Than One Office</u>. Any one person may hold any number of offices of the corporation at one time unless specifically prohibited therefrom by law.

<u>Section 4.14</u>. <u>Inability to Act</u>. In the case of absence or inability to act of any officer of the corporation and of any person herein authorized to act in his or her place, the Board may from time to time delegate the powers or duties of such officer to any other officer, or any director or other person whom it may select.

ARTICLE V

<u>Committees</u>

<u>Section 5.1</u>. **<u>Committees of Directors</u>**. The Board may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committees, who may replace any absent member at any meeting of the committee. Any committee, to the extent provided in the resolution of the Board, shall have all the authority of the Board, except with respect to:

(a) the approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares;

(b) the filling of vacancies on the Board or in any committee;

(c) the fixing of compensation of the directors for serving on the Board or on any committee;

(d) the amendment or repeal of bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or reparable;

(f) the appointment of committees of the Board or the members thereof;

(g) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the Board; or

(h) the appointment of any other committees of the Board or the members of these committees.

<u>Section 5.2</u>. **<u>Meetings and Action of Committees</u>**. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members, except that the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee; special meetings of committees may also be called by resolution of the Board or by resolution of the committee; and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board or a committee may adopt rules for the governance of the committee not inconsistent with the provisions of these bylaws.

ARTICLE VI

Indemnification

Section 6.1. Definitions. For use in this Article VI, certain terms are defined as follows:

(a) "Agent": A director, officer, employee or agent of the corporation or a person who is or was serving at the request of the corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, or other enterprise (including service with respect to employee benefit plans and service on creditors' committees with respect to any proceeding under the United States Bankruptcy Code of 1978, as amended, assignment for the benefit of creditors or other liquidation of assets of a debtor of the corporation), or a person who was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the corporation or of another enterprise at the request of the predecessor corporation.

(b) "Loss": All expenses, liabilities, and losses including attorneys' fees, judgments, fines, Employee Retirement Income Security Act excise taxes and penalties, amounts paid or to be paid in settlement, any interest, assessments, or other charges imposed thereon, and any federal, state, local, or foreign taxes imposed on any Agent as a result of the actual or deemed receipt of any payments under this Article.

(c) "Proceeding": Any threatened, pending or completed action, suit or proceeding including any and all appeals, whether civil, criminal, administrative or investigative.

Section 6.2. Right to Indemnification. Each person who is or was a director or officer of the corporation (or was serving at the request of the corporation as a director or officer of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise) including any current or former director or officer who was or is a party or is threatened to be made a party to or is involved (as a party, witness or otherwise) in any Proceeding, by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was an Agent, is entitled to indemnification. In such cases, such person shall be indemnified and held harmless by the corporation to the fullest extent authorized by law. The right to indemnification conferred in this Article VI shall be a contract right. It is the corporation's intention that these bylaws provide indemnification in excess of that expressly permitted by Section 317 of the Code, as authorized by the corporation's articles of incorporation.

Section 6.3. Authority to Advance Expenses. The right to indemnification provided in Section 6.2 of these bylaws shall include the right to be paid, in advance of a Proceeding's final disposition, expenses incurred in defending that Proceeding; provided that if required by the California General Corporation Law, as amended, the payment of expenses in advance of the final disposition of the Proceeding shall be made only upon delivery to the corporation of an undertaking by or on behalf of the person entitled to indemnification hereunder to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as authorized under this Article VI or otherwise. The indemnified party's obligation to reimburse the corporation for advances shall be unsecured and no interest shall be charged thereon.

Section 6.4. **Right of Claimant to Bring Suit.** If a claim under Section 6.2 or 6.3 of these bylaws is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expenses (including attorneys' fees) of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking has been tendered to the corporation) that the claimant has not met the standards of conduct that make it permissible under the California General Corporation Law for the corporation to indemnify the claimant for the amount claimed. The burden of proving such a defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that the indemnification of the claimant is proper under the circumstances because he or she has met the applicable standard of conduct set forth in the California General Corporation Law, nor an actual determination by the corporation (including its board of directors, independent legal counsel, or its shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not already met the applicable standard of conduct.

Section 6.5. **Provisions Nonexclusive.** The rights conferred on any person by this Article V shall not be exclusive of any other rights that such person may have or hereafter acquire under any statute, provision of the articles of incorporation, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. To the extent that any provision of the articles of incorporation, agreement, or vote of the shareholders or disinterested directors is inconsistent with these bylaws, the provision, agreement, or vote shall take precedence.

Section 6.6. **Authority to Insure.** The corporation may purchase and maintain insurance to protect itself and any Agent against any Loss asserted against or incurred by such person, whether or not the corporation would have the power to indemnify such Agent against such Loss under applicable law or the provisions of this Article VI. If the corporation owns all or a portion of the shares of the company issuing the insurance policy, the company and/or the policy must meet one of the two sets of conditions set forth in Section 317 of the Code.

Section 6.7. **Survival of Rights.** The rights provided by this Article VI shall continue as to a person who is entitled to be indemnified hereunder and has ceased to be an Agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

Section 6.8. **Settlement of Claims.** The corporation shall not be liable to indemnify any Agent under this Article VI for (a) any amounts paid in settlement of any action or claim effected without the corporation's written consent, which consent shall not be unreasonably withheld; or (b) any judicial award, if the corporation was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

Section 6.9. **Effect of Amendment.** Any amendment, repeal or modification of this Article VI shall not adversely affect any right or protection of any Agent existing at the time of such amendment, repeal or modification.

Section 6.10. **Subrogation.** Upon payment under this Article VI, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of an Agent, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the corporation effectively to bring suit to enforce such rights.

Section 6.11. No Duplication of Payments. The corporation shall not be liable under this Article VI to make any payment in connection with any claim made against an Agent to the extent such Agent has otherwise actually received payment (under any insurance policy, agreement, vote or otherwise) of the amounts otherwise indemnifiable hereunder.

ARTICLE VII

Other Provisions

Section 7.1. Inspection of Corporate Records.

(a) A shareholder or shareholders of the corporation holding at least five percent in the aggregate of the outstanding voting shares of the corporation or who hold at least one percent of the outstanding voting shares and have filed a Schedule 14B with the SEC relating to the election of directors of the corporation shall have an absolute right to do either or both of the following:

(i) inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours upon five business days' prior written demand upon the corporation; or

(ii) obtain from the transfer agent, if any, for the corporation, upon written demand and upon the tender of its usual charges for such a list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the shareholders' names and addresses who are entitled to vote for the election of directors and their shareholdings, as of the most recent record date for which it has been compiled, or as of a date specified by the shareholder subsequent to the date of demand. The corporation shall have a responsibility to cause the transfer agent to comply with this Section 7.1.

(b) The record of shareholders shall also be open to inspection and copying by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the corporation, for a purpose reasonably related to such holder's interest as a shareholder or holder of a voting trust certificate. A written demand for such inspection shall be accompanied by a statement in reasonable detail of the purpose of the inspection.

(c) The accounting books and records and minutes of proceedings of the shareholders and the Board and committees of the Board shall be open to inspection upon written demand on the corporation by any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interest as a shareholder or as a holder of such voting trust certificate. The right of inspection created by this Section 7.1(c) shall extend to the records of each subsidiary of the corporation. A written demand for such inspection shall be accompanied by a statement in reasonable detail of the purpose of the inspection.

Section 7.2. Execution of Documents, Contracts. Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, share certificate, initial transaction statement or written statement, conveyance or other instrument in writing and any assignment or endorsement thereof executed or entered into between the corporation and any other person, when signed by the chairperson of the Board, the president or any vice president and the secretary, any assistant secretary, the chief financial officer or any assistant financial officer of the corporation, or when stamped with a facsimile signature of such appropriate officers in the case of share certificates, shall be valid and binding upon the corporation in the absence of actual knowledge on the part of the other person that the signing officers did not have authority to execute the same. Any such instruments may be signed by any other person or persons and in such manner as from time to time shall be determined by the Board, and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or amount.

Section 7.3. Certificates of Stock. Unless otherwise provided in the articles of incorporation or herein, every holder of shares of the corporation shall be entitled to have a certificate signed in the name of the corporation by any officer authorized to sign stock certificates, certifying the number of shares and the class or series of shares owned by the shareholder. The signatures on the certificates may be facsimile signatures. If any officer, transfer agent or registrar who has signed a certificate or whose facsimile signature has been placed upon the certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Except as provided in this Section 7.3, no new certificate for shares shall be issued in lieu of an old certificate unless the latter is surrendered and canceled at the same time. The Board may, however, in case any certificate for shares is alleged to have been lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, and the corporation may require that the corporation be given a bond or other adequate security sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Prior to the due presentment for registration of transfer in the stock transfer book of the corporation, the registered owner shall be treated as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner, except as expressly provided otherwise by the laws of the state of California.

Notwithstanding any other provision of these bylaws and this Section 7.3, the corporation shall be entitled to issue in its discretion uncertificated securities in compliance with California Corporations Code Section 416(b), as amended, subject to the right of a holder of shares of the corporation to request issuance of a certificate in compliance with the provisions of this Section 7.3.

Section 7.4. Representation of Shares of Other Corporations. The president or any other officer or officers authorized by the Board or the president are each authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares or other securities of any other corporation or corporations standing in the name of the corporation. The authority herein granted may be exercised either by any such officer in person or by any other person authorized to do so by proxy or power of attorney duly executed by said officer.

Section 7.5. Regulations. The board of directors may make such rules and regulations as it may deem expedient, not inconsistent with these bylaws, concerning the issuance, transfer and registration of certificated or uncertificated shares of stock of the corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and, in the case of certificated shares of stock, may require all such certificates to bear the signature or signatures of any of them or a facsimile thereof.

Section 7.6. **Seal.** The corporate seal of the corporation shall consist of two concentric circles, between which shall be the name of the corporation, and in the center shall be inscribed the word “Incorporated” and the date of its incorporation.

Section 7.7. **Fiscal Year.** The fiscal year of the corporation shall begin on the first day of January and end on the 31st day of December of each year.

Section 7.8. **Construction and Definitions.** Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the Code and the California General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

Section 7.9. **Bylaw Provisions Contrary to or Inconsistent with Provisions of Law.** Any article, section, subsection, subdivision, sentence, clause or phrase of these bylaws which, upon being construed in the manner provided in this Section 7.9, shall be contrary to or inconsistent with any applicable provision of the Code or other applicable laws of the state of California or of the United States shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these bylaws, it being hereby declared that these bylaws would have been adopted and each article, section, subsection, subdivision, sentence, clause or phrase thereof, irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

ARTICLE III

Forum

Section 8.1. **Exclusive Forum for Certain Litigation**. Unless the corporation consents in writing to the selection of an alternative forum, the United States District Court for the Northern District of California (or, in the event that the United States District Court for the Northern District of California does not have jurisdiction, any other federal or state court of California) shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of any duty owed by any director or officer or other employee of the corporation to the corporation or to the shareholders of the corporation, (c) any action asserting a claim against the corporation or any director or officer or other employee of the corporation arising pursuant to any provision of the Code or the Articles of Incorporation or these bylaws, or (d) any action asserting a claim against the corporation or any director or officer or other employee of the corporation that is governed by the internal affairs doctrine. Unless the corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by applicable law, be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the federal securities laws of the United States of America, including, in each case, the applicable rules and regulations promulgated thereunder. If any provision of this Article VIII shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provision in any other circumstance and of the remaining provisions of this Article VIII (including, without limitation, each portion of any sentence of this Article VIII containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby. Any person or entity purchasing or otherwise acquiring or holding any interest in share of capital stock of the corporation shall be deemed to have notice of and to have consented to the provisions of this Article VIII.

ARTICLE IX

Amendments

Section 9.1. **Amendment by Shareholders.** New bylaws may be adopted or these bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided that if the articles of incorporation of the corporation set forth the number of authorized directors of the corporation, the authorized number of directors may be changed only by an amendment of the articles of incorporation and provided also that a bylaw reducing the fixed number or the minimum number of directors to a number less than five cannot be adopted if the votes cast against adoption at a meeting, or the shares not consenting in the case of action by written consent, are equal to more than 16 2/3 percent of the outstanding shares entitled to vote.

Section 9.2. **Amendment by Directors.** Subject to the rights of the shareholders as provided in Section 9.1, bylaws, other than a bylaw specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable board or vice versa, may be adopted, amended or repealed by the Board.

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.

August 11, 2022	*/s/ James Beckwith*
Date	James Beckwith
	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.

August 11, 2022	*/s/ Heather Luck*
Date	Heather Luck 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 June 30, 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.

August 11, 2022	*/s/ James Beckwith*
Date	James Beckwith 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 June 30, 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.

August 11, 2022	*/s/ Heather Luck*
Date	Heather Luck Senior Vice President & Chief Financial Officer