FIVE STAR BANCORP

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

FORM 10-Q

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from ________ to ________

Commission File Number 001-40379

FIVE STAR BANCORP

(Exact name of Registrant as specified in its charter)

California	**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**

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, no par value per share	FSBC	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of May 3, 2024, there were 21,320,083 shares of the registrant's common stock, no par value, outstanding.

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March 31, 2024

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in thousands, except share amounts)	**March 31, 2024**	**December 31, 2023**
ASSETS		
Cash and due from financial institutions	$ 29,750	$ 26,986
Interest-bearing deposits in banks	155,575	294,590
Cash and cash equivalents	185,325	321,576
Time deposits in banks	5,878	5,858
Securities available-for-sale, at fair value, net of allowance for credit losses of $0 at March 31, 2024 and December 31, 2023 (amortized cost of $122,667 and $124,788 at March 31, 2024 and December 31, 2023, respectively)	105,006	108,083
Securities held-to-maturity, at amortized cost, net of allowance for credit losses of $20 at March 31, 2024 and December 31, 2023 (fair value of $2,828 and $2,913 at March 31, 2024 and December 31, 2023, respectively)	3,000	3,077
Loans held for sale	10,243	11,464
Loans held for investment	3,104,130	3,081,719
Allowance for credit losses - loans	(34,653)	(34,431)
Loans held for investment, net of allowance for credit losses	3,069,477	3,047,288
FHLB stock	15,000	15,000
Operating leases, right-of-use asset, net	6,932	5,284
Premises and equipment, net	1,569	1,623
Bank-owned life insurance	18,872	17,180
Interest receivable and other assets	55,058	56,692
Total assets	**$ 3,476,360**	**$ 3,593,125**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 817,388	$ 831,101
Interest-bearing	2,138,384	2,195,795
Total deposits	2,955,772	3,026,896
Borrowings:		
Subordinated notes, net	73,786	73,749
Other borrowings	120,000	170,000
Operating lease liability	7,320	5,603
Interest payable and other liabilities	26,902	31,103
Total liabilities	3,183,780	3,307,351
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; zero issued and outstanding at March 31, 2024 and December 31, 2023	—	—
Common stock, no par value; 100,000,000 shares authorized; 17,353,251 shares issued and outstanding at March 31, 2024; 17,256,989 shares issued and outstanding at December 31, 2023	220,804	220,505
Retained earnings	84,216	77,036
Accumulated other comprehensive loss, net of taxes	(12,440)	(11,767)
Total shareholders' equity	292,580	285,774
Total liabilities and shareholders' equity	**$ 3,476,360**	**$ 3,593,125**

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands, except per share amounts)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Interest and fee income:		
Loans, including fees	$ 43,786	$ 37,494
Taxable securities	477	466
Nontaxable securities	176	184
Interest-bearing deposits in banks	3,102	2,167
Total interest and fee income	47,541	40,311
Interest expense:		
Deposits	19,511	9,378
Subordinated notes	1,161	1,161
Other borrowings	125	624
Total interest expense	20,797	11,163
Net interest income	26,744	29,148
Provision for credit losses	900	900
Net interest income after provision for credit losses	25,844	28,248
Non-interest income:		
Service charges on deposit accounts	188	117
Gain on sale of loans	369	598
Loan-related fees	429	308
FHLB stock dividends	332	193
Earnings on BOLI	142	102
Other	373	53
Total non-interest income	1,833	1,371
Non-interest expense:		
Salaries and employee benefits	7,577	6,618
Occupancy and equipment	626	523
Data processing and software	1,157	872
FDIC insurance	400	402
Professional services	707	631
Advertising and promotional	460	418
Loan-related expenses	297	255
Other operating expenses	1,492	1,399
Total non-interest expense	12,716	11,118
Income before provision for income taxes	14,961	18,501
Provision for income taxes	4,330	5,340
Net income	**$ 10,631**	**$ 13,161**
Basic earnings per common share	$ 0.62	$ 0.77
Diluted earnings per common share	$ 0.62	$ 0.77

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
(in thousands)	**2024**	**2023**
Net income	$ 10,631	$ 13,161
Unrealized (loss) gain on securities:		
Net unrealized holding (loss) gain on securities available-for-sale during the period	(955)	2,140
Less: Income tax (benefit) expense related to items of other comprehensive (loss) income	(282)	632
Other comprehensive (loss) income	(673)	1,508
Total comprehensive income	**$ 9,958**	**$ 14,669**

See accompanying notes to the unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2024 and 2023
(Unaudited)

(in thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2022	17,241,926	$ 219,543	$ 46,736	$ (13,454)	$ 252,825
Cumulative effect of adoption of ASC 326 on retained earnings	—	—	(4,491)	—	(4,491)
Net income	—	—	13,161	—	13,161
Other comprehensive income	—	—	—	1,508	1,508
Stock issued under stock award plans, net	16,978	—	—	—	—
Stock compensation expense	—	242	—	—	242
Cash dividends paid ($0.15 per share)	—	—	(2,589)	—	(2,589)
Balance at March 31, 2023	**17,258,904**	**$ 219,785**	**$ 52,817**	**$ (11,946)**	**$ 260,656**
Balance at December 31, 2023	17,256,989	$ 220,505	$ 77,036	$ (11,767)	$ 285,774
Net income	—	—	10,631	—	10,631
Other comprehensive loss	—	—	—	(673)	(673)
Stock issued under stock award plans, net	96,380	—	—	—	—
Stock compensation expense	—	299	—	—	299
Stock forfeitures	(118)	—	—	—	—
Cash dividends paid ($0.20 per share)	—	—	(3,451)	—	(3,451)
Balance at March 31, 2024	**17,353,251**	**$ 220,804**	**$ 84,216**	**$ (12,440)**	**$ 292,580**

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows from operating activities:		
Net income	$ 10,631	$ 13,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	900	900
Depreciation and amortization	472	419
Amortization of deferred loan fees and costs	(127)	(36)
Amortization of premiums and discounts on securities	246	313
Amortization of subordinated note issuance costs	36	34
Stock compensation expense	299	242
Earnings on BOLI	(142)	(102)
Deferred tax provision	6	62
Loans originated for sale	(15,453)	(24,006)
Gain on sale of loans	(369)	(598)
Gross proceeds from sale of loans	5,580	13,289
Gain on partial sale of equity investment	300	—
Net changes in:		
Interest receivable and other assets	2,050	(4,331)
Interest payable and other liabilities	(3,941)	1,580
Operating lease liability	(241)	(233)
Net cash provided by operating activities	**247**	**694**
Cash flows from investing activities:		
Maturities, prepayments, and calls of securities available-for-sale	1,953	2,899
Capital call for equity investment	(1,000)	—
Proceeds received from equity investment	300	—
Net change in time deposits in banks	(20)	232
Loan originations, net of repayments	(11,498)	(69,450)
Purchase of premises and equipment	(108)	(240)
Purchase of BOLI	(1,550)	(2,000)
Net cash used in investing activities	**(11,923)**	**(68,559)**
Cash flows from financing activities:		
Net change in deposits	(71,124)	138,402
(Payments) advances on other borrowings	(50,000)	20,000
Cash dividends paid	(3,451)	(2,589)
Net cash (used in) provided by financing activities	**(124,575)**	**155,813**
Net change in cash and cash equivalents	(136,251)	87,948
Cash and cash equivalents at beginning of period	321,576	259,991
Cash and cash equivalents at end of period	**$ 185,325**	**$ 347,939**
Supplemental disclosure of cash flow information:		
Interest paid	$ 22,568	$ 471
Income taxes paid	144	—
Supplemental disclosure of noncash items:		
Transfer from loans held for sale to loans held for investment	11,464	9,416
Unrealized (loss) gain on securities	(955)	2,140
Operating lease liabilities exchanged for ROUA	1,958	1,423
ROUA acquired	(1,958)	(1,444)

See accompanying notes to the unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

(a) Organization

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

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

(b) Basis of Financial Statement Presentation and Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as contained within the Financial Accounting Standards Board's ("FASB") ASC and the rules and regulations of the SEC, including the instructions to Regulation S-X. These interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity, and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as of and for the year ended December 31, 2023, and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Annual Report on Form 10-K"), which was filed with the SEC on February 23, 2024.

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

The results of operations for the three months ended March 31, 2024 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, 2024.

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

(c) Segments

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

(d) Emerging Growth Company

The Company qualifies as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, and, as such, may take advantage of specified reduced reporting requirements and deferred accounting standards adoption dates, and is relieved of other significant requirements that are otherwise generally applicable to other public companies. The Company will remain an emerging growth company for five years after its IPO date of May 5, 2021, unless one of the following occurs: (i) total annual gross revenues are $1.235 billion or more; (ii) the Company issues more than $1 billion in non-convertible debt; or (iii) the Company becomes a large accelerated filer with a public float of more than $0.7 billion.

(e) Significant Accounting Policies

The Company's significant accounting policies are included in Note 1, Basis of Presentation in the notes to our audited consolidated financial statements included in the 2023 Annual Report on Form 10-K.

(f) Recently Issued Accounting Standards

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

Accounting Standards Adopted in 2024

In March 2023, the FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* ("ASU 2023-02"). Under current GAAP, an entity can only elect to apply the proportional amortization method to investments in low income housing tax credit ("LIHTC") structures. The amendments in ASU 2023-02 allow entities to elect to account for equity investments made primarily for the purpose of receiving income tax credits using the proportional amortization method, regardless of the tax credit program through which the investment earns income tax credits, if certain conditions are met. ASU 2023-02 provides amendments to paragraph ASC 323-740-25-1, which sets forth the conditions needed to apply the proportional amortization method. The amendments make certain limited changes to those conditions to clarify their application to a broader group of tax credit investment programs. However, the conditions in substance remain consistent with current GAAP. The amendments in ASU 2023-02 also eliminate certain LIHTC-specific guidance to align the accounting more closely with the accounting for other equity investments in tax credit structures and require that the delayed equity contribution guidance in paragraph ASC 323-740-25-3 apply only to tax equity investments accounted for using the proportional amortization method. The Company adopted ASU 2023-02 on January 1, 2024, which did not have a significant impact on the Company's consolidated financial statements.

Accounting Standards Issued But Not Yet Adopted

In October 2023, the FASB issued ASU No. 2023-06, *Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative* ("ASU 2023-06"), amending disclosure or presentation requirements related to various subtopics in the FASB's ASC. ASU 2023-06 was issued in response to the SEC's initiative to update and simplify disclosure requirements. The SEC identified 27 disclosure requirements that were incremental to those in the ASC and referred them to the FASB for potential incorporation into GAAP. To avoid duplication, the SEC intended to eliminate those disclosure requirements from existing SEC regulations as the FASB incorporated them into the relevant ASC subtopics. ASU 2023-06 adds 14 of the 27 identified disclosure or presentation requirements to the ASC. ASU 2023-06 is to be applied prospectively, and early adoption is prohibited. For reporting entities subject to the SEC's existing disclosure requirements, the effective dates of ASU 2023-06 will be the date on which the SEC's removal of that related disclosure requirement from Regulation S-X or Regulation S-K becomes effective. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the ASC and will not become effective for any entities. ASU 2023-06 is not expected to have a significant impact on the Company's consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures* ("ASU 2023-07"), amending disclosure requirements related to segment reporting primarily through enhanced disclosure about significant segment expenses and by requiring disclosure of segment information on an annual and interim basis. ASU 2023-07 is effective January 1, 2024 and for interim periods beginning after December 15, 2024. The key amendments: (i) require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (the "CODM") and included within each reported measure of segment profit or loss; (ii) require that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition; (iii) require that a public entity provide all annual disclosures about a reportable segment's profit or loss currently required by GAAP in interim periods as well; (iv) clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, an entity may report one or more of those additional measures of segment profit; (v) require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources; and (vi) require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in the ASU and all existing segment disclosures. The requirements of this standard for such entities will apply beginning with the Company's annual report for the year ending December 31, 2024. The Company has one reportable segment and ASU 2023-07 is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures* ("ASU 2023-09"), which enhances the transparency and decision usefulness of income tax disclosures. ASU 2023-09 will require disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. Entities will also be required to disclose income/(loss) from continuing operations before income tax expense/(benefit) disaggregated between domestic and foreign, as well as income tax expense/(benefit) from continuing operations disaggregated by federal, state, and foreign. ASU 2023-09 is effective January 1, 2025 and is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02, *Codification Improvements - Amendments to Remove References to the Concepts Statements* ("ASU 2024-02"). ASU 2024-02 contains amendments to the ASC that remove references to various Concepts Statements. In most instances, the references are extraneous and not required to understand or apply the guidance. In other instances, the references were used in prior Statements to provide guidance in certain topical areas. FASB Concepts Statements are nonauthoritative. Removing all references to Concepts Statements in the guidance is intended to simplify the ASC and draw a distinction between authoritative and nonauthoritative literature. ASU 2024-02 is effective January 1, 2025 and is not expected to have a significant impact on the Company's consolidated financial statements.

Note 2: Fair Value of Assets and Liabilities

Fair Value Hierarchy and Fair Value Measurement

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

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

(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
March 31, 2024					
Assets:					
Securities available-for-sale:					
U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds	$ 105,006	$ —	$ 105,006	$ —	OCI
Derivatives – interest rate swap	6	—	6	—	NI
Liabilities:					
Derivatives – interest rate swap	6	—	6	—	NI
December 31, 2023					
Assets:					
Securities available-for-sale:					
U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds	$ 108,083	$ —	$ 108,083	$ —	OCI
Derivatives – interest rate swap	10	—	10	—	NI
Liabilities:					
Derivatives – interest rate swap	10	—	10	—	NI

Available-for-sale securities are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1 inputs) are used to determine the fair value of available-for-sale securities. If quoted market prices are not available, management obtains pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, probability of default, loss severity, and credit spreads (Level 2 inputs). Level 2 securities include U.S. agencies' or government-sponsored agencies' debt securities, mortgage-backed securities, government agency-issued bonds, privately issued collateralized mortgage obligations, and corporate bonds. Level 3 securities are based on unobservable inputs that are supported by little or no market activity. In addition, values use discounted cash flow models and may include significant management judgment and estimation. As of March 31, 2024 and December 31, 2023, there were no Level 1 available-for-sale securities and no transfers between Level 1 and Level 2 classifications for assets or liabilities measured at fair value on a recurring basis.

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

Certain financial assets may be measured at fair value on a non-recurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets, such as collateral dependent loans and other real estate owned. As of March 31, 2024 and December 31, 2023, the carrying amount of assets measured at fair value on a non-recurring basis was immaterial to the Company.

Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates for financial instruments as of March 31, 2024 and December 31, 2023. The carrying amounts in the following table are recorded in the consolidated balance sheets under the indicated captions. Further, management has not disclosed the fair value of financial instruments specifically excluded from disclosure requirements, such as BOLI.

	March 31, 2024			December 31, 2023		
(in thousands)	Carrying Amounts	Fair Value	Fair Value Hierarchy	Carrying Amounts	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and cash equivalents	$ 185,325	$ 185,325	Level 1	$ 321,576	$ 321,576	Level 1
Time deposits in banks	5,878	5,878	Level 1	5,858	5,858	Level 1
Securities available-for-sale	105,006	105,006	Level 2	108,083	108,083	Level 2
Securities held-to-maturity	3,000	2,828	Level 3	3,077	2,913	Level 3
Loans held for sale	10,243	11,357	Level 2	11,464	12,626	Level 2
Loans held for investment, net of allowance for credit losses	3,069,477	2,920,533	Level 3	3,047,288	2,891,925	Level 3
FHLB stock and other investments	22,801	N/A	N/A	21,801	N/A	N/A
Interest rate swap	6	6	Level 2	10	10	Level 2
Financial liabilities:						
Interest rate swap	$ 6	$ 6	Level 2	$ 10	$ 10	Level 2
Time deposits	288,168	287,246	Level 2	466,572	465,205	Level 2
Subordinated notes	73,786	72,740	Level 3	73,749	72,693	Level 3
Other borrowings	120,000	120,000	Level 2	170,000	170,000	Level 2

The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at March 31, 2024 and December 31, 2023:

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. Fair value of held-to-maturity securities is estimated by calculating the net present value of future cash flows based on observable market data, such as interest rates and yield curves (observable at commonly quoted intervals) as provided by an independent third party.

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

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

FHLB stock and other investments: 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.

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.

Commitments to extend credit: These are primarily for adjustable rate loans and there are no differences between the committed amounts and their fair values. Commitments to fund fixed rate loans are at rates which approximate fair value at each reporting date.

Time deposits: The fair value is estimated using a discounted cash flow analysis that uses interest rates offered at each reporting date by the Company for certificates with similar remaining maturities, resulting in a Level 2 classification.

Subordinated notes: The fair value is estimated by discounting the future cash flow using the current three-month CME Term SOFR. 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.

Other borrowings: The carrying amount is estimated to be fair value.

Note 3: Investment Securities

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

A summary of the amortized cost and fair value related to securities held-to-maturity as of March 31, 2024 and December 31, 2023 is presented below.

		Gross Unrealized		
(in thousands)	Amortized Cost	Gains	(Losses)	Fair Value
March 31, 2024				
Obligations of states and political subdivisions	$ 3,000	$ —	$ (172)	$ 2,828
Total held-to-maturity	$ 3,000	$ —	$ (172)	$ 2,828
December 31, 2023				
Obligations of states and political subdivisions	$ 3,077	$ —	$ (164)	$ 2,913
Total held-to-maturity	$ 3,077	$ —	$ (164)	$ 2,913

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

A summary of the amortized cost and fair value related to securities available-for-sale as of March 31, 2024 and December 31, 2023 is presented below.

		Gross Unrealized		
(in thousands)	Amortized Cost	Gains	(Losses)	Fair Value
March 31, 2024				
U.S. government agency securities	$ 9,912	$ 148	$ (131)	$ 9,929
Mortgage-backed securities	67,246	2	(12,303)	54,945
Obligations of states and political subdivisions	43,158	6	(5,141)	38,023
Collateralized mortgage obligations	351	—	(34)	317
Corporate bonds	2,000	—	(208)	1,792
Total available-for-sale	$ 122,667	$ 156	$ (17,817)	$ 105,006
December 31, 2023				
U.S. government agency securities	$ 10,548	$ 142	$ (149)	$ 10,541
Mortgage-backed securities	68,585	7	(11,619)	56,973
Obligations of states and political subdivisions	43,288	12	(4,841)	38,459
Collateralized mortgage obligations	367	—	(35)	332
Corporate bonds	2,000	—	(222)	1,778
Total available-for-sale	$ 124,788	$ 161	$ (16,866)	$ 108,083

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2024 and December 31, 2023 are shown below. Expected maturities may differ from contractual maturities if the issuers of the securities have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2024				December 31, 2023			
	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	$ 245	$ 231	$ —	$ —	$ 277	$ 263	$ —	$ —
After one but within five years	920	867	391	362	935	885	394	367
After five years through ten years	1,340	1,263	7,692	6,908	1,365	1,292	6,407	5,838
After ten years	495	467	35,075	30,753	500	473	36,487	32,254
Investment securities not due at a single maturity date:								
U.S. government agency securities	—	—	9,912	9,929	—	—	10,548	10,541
Mortgage-backed securities	—	—	67,246	54,945	—	—	68,585	56,973
Collateralized mortgage obligations	—	—	351	317	—	—	367	332
Corporate bonds	—	—	2,000	1,792	—	—	2,000	1,778
Total	$ 3,000	$ 2,828	$ 122,667	$ 105,006	$ 3,077	$ 2,913	$ 124,788	$ 108,083

There were no purchases or sales of investment securities during the three months ended March 31, 2024 and March 31, 2023.

Pledged investment securities are shown in the following table:

(in thousands)	March 31, 2024	December 31, 2023
Pledged to:		
The State of California, securing deposits of public funds and borrowings	$ 53,418	$ 55,435
The Federal Reserve Discount Window, increasing borrowing capacity	47,939	48,964
Total pledged investment securities	$ 101,357	$ 104,399

The following table details the gross unrealized losses and fair values aggregated by investment category and length of time that individual available-for-sale securities have been in a continuous unrealized loss position at March 31, 2024 and December 31, 2023:

	Less than 12 months		12 months or more		Total securities in a loss position	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2024						
U.S. government agency securities	$ 1,926	$ (6)	$ 5,761	$ (125)	$ 7,687	$ (131)
Mortgage-backed securities	1	—	53,592	(12,303)	53,593	(12,303)
Obligations of states and political subdivisions	—	—	36,501	(5,141)	36,501	(5,141)
Collateralized mortgage obligations	—	—	317	(34)	317	(34)
Corporate bonds	—	—	1,792	(208)	1,792	(208)
Total temporarily impaired securities	$ 1,927	$ (6)	$ 97,963	$ (17,811)	$ 99,890	$ (17,817)
December 31, 2023						
U.S. government agency securities	$ 1,130	$ (14)	$ 7,081	$ (135)	$ 8,211	$ (149)
Mortgage-backed securities	—	—	55,609	(11,619)	55,609	(11,619)
Obligations of states and political subdivisions	—	—	36,930	(4,841)	36,930	(4,841)
Collateralized mortgage obligations	—	—	332	(35)	332	(35)
Corporate bonds	—	—	1,778	(222)	1,778	(222)
Total temporarily impaired securities	$ 1,130	$ (14)	$ 101,730	$ (16,852)	$ 102,860	$ (16,866)

There were 150 and 149 available-for-sale securities in unrealized loss positions at March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024, the investment portfolio included 144 investment securities that had been in a continuous loss position for twelve months or more and six investment securities that had been in a loss position for less than twelve months.

There was one held-to-maturity security in a continuous unrealized loss position at March 31, 2024 and December 31, 2023, which had been in a continuous loss position for more than twelve months.

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

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

Non-Marketable Securities Included in Other Assets

FHLB capital stock: As a member of the FHLB, the Company is required to maintain a minimum investment in FHLB capital stock determined by the board of directors of the FHLB. The minimum investment requirements can increase in the event the Company increases its total asset size or borrowings with the FHLB. Shares cannot be purchased or sold except between the FHLB and its members at the $100 per share par value. The Company held $15.0 million of FHLB stock at March 31, 2024 and December 31, 2023. The carrying amounts of these investments are reasonable estimates of fair value because the securities are restricted to member banks and do not have a readily determinable market value. Based on management's analysis of the FHLB's financial condition and certain qualitative factors, management determined that the FHLB stock was not impaired at March 31, 2024 and December 31, 2023.

Note 4: Loans and Allowance for Credit Losses

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

(in thousands)	March 31, 2024	December 31, 2023
Real estate:		
Commercial	$ 2,687,456	$ 2,685,419
Commercial land and development	14,678	15,551
Commercial construction	62,513	62,863
Residential construction	18,141	15,456
Residential	28,685	25,893
Farmland	51,422	51,669
Commercial:		
Secured	143,273	165,109
Unsecured	26,175	23,850
Consumer and other	73,917	38,166
Subtotal	3,106,260	3,083,976
Net deferred loan fees	(2,130)	(2,257)
Loans held for investment	3,104,130	3,081,719
Allowance for credit losses - loans	(34,653)	(34,431)
Loans held for investment, net of allowance for credit losses	$ 3,069,477	$ 3,047,288

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 may be 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 and their 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 may be temporary in nature. The significant issues are typically: (i) a history of losses or events that threaten the borrower's viability; (ii) a property with significant depreciation and/or marketability concerns; or (iii) poor or deteriorating credit, occasional late payments, and/or limited reserves but the loan is generally kept current. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

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

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

The amortized cost basis of the Company’s loans by origination year, where origination is defined as the later of origination or renewal date, and credit quality indicator as of the period indicated was as follows:

	Amortized Cost Basis by Origination Year as of March 31, 2024								
(in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Converted to Term	Total
Real estate:									
Commercial									
Pass	$ 71,988	$ 329,126	$ 971,602	$ 670,590	$ 236,866	$ 360,603	$ 4,850	$ —	$ 2,645,625
Watch	—	—	11,517	15,855	4,699	5,178	—	—	37,249
Substandard	—	—	—	—	—	1,849	—	—	1,849
Doubtful	—	—	—	—	—	—	—	—	—
Total	71,988	329,126	983,119	686,445	241,565	367,630	4,850	—	2,684,723
Commercial land and development									
Pass	1,663	9,899	2,217	—	183	714	—	—	14,676
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	1,663	9,899	2,217	—	183	714	—	—	14,676
Commercial construction									
Pass	110	7,124	37,899	—	11,230	5,897	—	—	62,260
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	110	7,124	37,899	—	11,230	5,897	—	—	62,260
Residential construction									
Pass	14,229	—	—	3,913	—	—	—	—	18,142
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	14,229	—	—	3,913	—	—	—	—	18,142
Residential									
Pass	3,203	4,828	3,896	6,195	2,259	6,925	1,409	—	28,715
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	3,203	4,828	3,896	6,195	2,259	6,925	1,409	—	28,715
Farmland									
Pass	690	2,302	8,030	12,669	7,826	19,884	3	—	51,404
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	690	2,302	8,030	12,669	7,826	19,884	3	—	51,404
Commercial:									
Secured									
Pass	1,394	27,663	26,760	12,033	11,387	18,864	31,061	—	129,162
Watch	—	180	9,397	2,651	38	1,173	1,172	—	14,611
Substandard	—	—	—	—	—	66	—	—	66
Doubtful	—	—	—	—	—	—	—	—	—
Total	1,394	27,843	36,157	14,684	11,425	20,103	32,233	—	143,839

(in thousands)	Amortized Cost Basis by Origination Year as of March 31, 2024						Revolving Loans	Revolving Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
Commercial:									
Unsecured									
Pass	958	4,890	3,321	4,471	5,717	2,142	4,692	—	26,191
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	958	4,890	3,321	4,471	5,717	2,142	4,692	—	26,191
Consumer and other									
Pass	16,057	39,913	10,317	7,587	1	279	—	—	74,154
Watch	—	—	15	—	—	—	—	—	15
Substandard	—	—	11	—	—	—	—	—	11
Doubtful	—	—	—	—	—	—	—	—	—
Total	16,057	39,913	10,343	7,587	1	279	—	—	74,180
Total									
Pass	110,292	425,745	1,064,042	717,458	275,469	415,308	42,015	—	3,050,329
Watch	—	180	20,929	18,506	4,737	6,351	1,172	—	51,875
Substandard	—	—	11	—	—	1,915	—	—	1,926
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 110,292	$ 425,925	$ 1,084,982	$ 735,964	$ 280,206	$ 423,574	$ 43,187	$ —	$ 3,104,130

(in thousands)	Amortized Cost Basis by Origination Year as of December 31, 2023						Revolving Loans	Revolving Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Real estate:									
Commercial									
Pass	$ 329,876	$ 992,181	$ 714,965	$ 238,655	$ 128,424	$ 247,030	$ 4,685	$ —	$ 2,655,816
Watch	—	8,534	6,274	4,727	574	4,896	—	—	25,005
Substandard	—	—	—	—	—	1,890	—	—	1,890
Doubtful	—	—	—	—	—	—	—	—	—
Total	329,876	1,000,715	721,239	243,382	128,998	253,816	4,685	—	2,682,711
Commercial land and development									
Pass	11,388	3,229	—	184	—	733	—	—	15,534
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	11,388	3,229	—	184	—	733	—	—	15,534
Commercial construction									
Pass	9,074	32,154	4,189	11,230	—	5,897	—	—	62,544
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	9,074	32,154	4,189	11,230	—	5,897	—	—	62,544
Residential construction									
Pass	2,412	9,128	3,912	—	—	—	—	—	15,452
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	2,412	9,128	3,912	—	—	—	—	—	15,452

(in thousands)	Amortized Cost Basis by Origination Year as of December 31, 2023 2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Converted to Term	Total
Real estate:									
Residential									
Pass	4,838	3,964	6,244	2,279	1,182	5,995	1,420	—	25,922
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	4,838	3,964	6,244	2,279	1,182	5,995	1,420	—	25,922
Farmland									
Pass	2,311	8,037	12,678	7,860	12,365	8,391	4	—	51,646
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	2,311	8,037	12,678	7,860	12,365	8,391	4	—	51,646
Commercial:									
Secured									
Pass	25,299	28,879	14,304	12,164	9,918	10,363	50,020	—	150,947
Watch	189	8,802	2,705	63	154	941	1,727	—	14,581
Substandard	—	—	—	—	45	27	—	—	72
Doubtful	—	—	—	—	—	—	—	—	—
Total	25,488	37,681	17,009	12,227	10,117	11,331	51,747	—	165,600
Unsecured									
Pass	3,891	3,782	4,902	5,963	2,240	7	3,072	—	23,857
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	3,891	3,782	4,902	5,963	2,240	7	3,072	—	23,857
Consumer and other									
Pass	18,489	11,359	8,264	6	—	307	—	—	38,425
Watch	—	16	—	—	—	—	—	—	16
Substandard	—	12	—	—	—	—	—	—	12
Doubtful	—	—	—	—	—	—	—	—	—
Total	18,489	11,387	8,264	6	—	307	—	—	38,453
Total									
Pass	407,578	1,092,713	769,458	278,341	154,129	278,723	59,201	—	3,040,143
Watch	189	17,352	8,979	4,790	728	5,837	1,727	—	39,602
Substandard	—	12	—	—	45	1,917	—	—	1,974
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 407,767	$ 1,110,077	$ 778,437	$ 283,131	$ 154,902	$ 286,477	$ 60,928	$ —	$ 3,081,719

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 generally ranging from monthly to annually depending on credit size, risk, and complexity. In addition, investor commercial real estate borrowers with loans exceeding a certain dollar threshold are usually required to submit rent rolls or property income statements annually. Management monitors construction loans monthly and reviews consumer loans based on delinquency. Management also reviews loans graded "watch" or worse, regardless of loan type, no less than quarterly.

The age analysis of past due loans by class as of March 31, 2024 consisted of the following:

	Past Due					
(in thousands)	30-59 Days	60-89 Days	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Real estate:						
Commercial	$ —	$ —	$ —	$ —	$ 2,684,723	$ 2,684,723
Commercial land and development	—	—	—	—	14,676	14,676
Commercial construction	—	—	—	—	62,260	62,260
Residential construction	—	—	—	—	18,142	18,142
Residential	—	—	—	—	28,715	28,715
Farmland	—	—	—	—	51,404	51,404
Commercial:						
Secured	182	—	—	182	143,657	143,839
Unsecured	—	—	—	—	26,191	26,191
Consumer and other	94	—	—	94	74,086	74,180
Total	$ 276	$ —	$ —	$ 276	$ 3,103,854	$ 3,104,130

There were no loans greater than 90 days past due and still accruing interest income as of March 31, 2024.

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

	Past Due					
(in thousands)	30-59 Days	60-89 Days	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Real estate:						
Commercial	$ —	$ —	$ —	$ —	$ 2,682,711	$ 2,682,711
Commercial land and development	—	—	—	—	15,534	15,534
Commercial construction	—	—	—	—	62,544	62,544
Residential construction	—	—	—	—	15,452	15,452
Residential	—	—	—	—	25,922	25,922
Farmland	—	—	—	—	51,646	51,646
Commercial:						
Secured	—	—	—	—	165,600	165,600
Unsecured	—	—	—	—	23,857	23,857
Consumer and other	76	—	—	76	38,377	38,453
Total	$ 76	$ —	$ —	$ 76	$ 3,081,643	$ 3,081,719

There were no loans greater than 90 days past due and still accruing interest income as of December 31, 2023.

No collateral dependent loans were in process of foreclosure at March 31, 2024 or December 31, 2023.

Non-accrual loans, segregated by class, were as follows as of March 31, 2024 and December 31, 2023:

(in thousands)	March 31, 2024	December 31, 2023
Real estate:		
Commercial	$ 1,852	$ 1,893
Commercial:		
Secured	66	72
Total non-accrual loans	$ 1,918	$ 1,965

No interest income was recognized on non-accrual loans in the three months ended March 31, 2024 or March 31, 2023. Non-accrual real estate loans did not have an allowance for credit losses as of March 31, 2024. Interest income can be recognized on non-accrual loans in cases where resolution occurs through a sale or full payment is received on the non-accrual loan.

The amount of foregone interest income related to non-accrual loans was $39.2 thousand for the three months ended March 31, 2024, as compared to $9.1 thousand for the three months ended March 31, 2023.

Allowance for Credit Losses - Loans

The following table discloses activity in the allowance for credit losses - loans for the three months ended March 31, 2024.

(in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (Benefit)	Ending Balance
Real estate:					
Commercial	$ 29,015	$ —	$ —	$ (120)	$ 28,895
Commercial land and development	178	—	—	(14)	164
Commercial construction	718	—	—	(21)	697
Residential construction	89	—	—	25	114
Residential	151	—	—	13	164
Farmland	399	—	—	39	438
Commercial:					
Secured	3,314	(998)	182	764	3,262
Unsecured	189	(34)	—	104	259
Consumer and other	378	(71)	93	260	660
Total	$ 34,431	$ (1,103)	$ 275	$ 1,050	$ 34,653

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

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

Unfunded Loan Commitment Reserves

Unfunded loan commitment reserves are included in "Interest payable and other liabilities" in the unaudited consolidated balance sheets. Provisions for unfunded loan commitments are included in "Provision for credit losses" in the unaudited consolidated statements of income.

	Three months ended	
(in thousands)	March 31, 2024	March 31, 2023
Balance at beginning of period	$ 1,247	$ 125
Effect of adoption of ASC 326	—	1,092
Provision	(150)	—
Balance at end of period	$ 1,097	$ 1,217

Pledged Loans

The Company's FHLB line of credit is secured under terms of a collateral agreement by a pledge of certain qualifying loans with unpaid principal balances of $1.7 billion at March 31, 2024 and December 31, 2023. In addition, the Company pledges eligible tenants in common loans, which totaled $1.2 billion at March 31, 2024 and December 31, 2023, to secure its borrowing capacity with the Federal Reserve Discount Window. See Note 6, Long Term Debt and Other Borrowings, for further discussion of these borrowings.

Note 5: Interest-Bearing Deposits

Interest-bearing deposits consisted of the following as of March 31, 2024 and December 31, 2023:

(in thousands)	March 31, 2024	December 31, 2023
Interest-bearing transaction accounts	$ 295,799	$ 320,356
Savings accounts	121,417	126,498
Money market accounts	1,433,000	1,282,369
Time accounts, $250 or more	221,976	344,694
Other time accounts	66,192	121,878
Total interest-bearing deposits	$ 2,138,384	$ 2,195,795

Time deposits totaled $288.2 million and $466.6 million as of March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024, scheduled maturities of time deposits for the next five years were as follows:

(in thousands)	
2024	$ 256,125
2025	30,546
2026	1,361
2027	—
2028	136
Total time deposits	$ 288,168

Total deposits include deposits offered through the IntraFi 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 and interest checking deposits. Through this network, the Company offers customers access to FDIC-insured deposit products in aggregate amounts exceeding current insurance limits. When funds are deposited through CDARS and ICS on behalf of a customer, the Company has the option of receiving matching deposits through the network’s reciprocal deposit program or placing deposits “one-way,” for which the Company receives no matching deposits. The Company considers the reciprocal deposits to be in-market deposits, as distinguished from traditional out-of-market brokered deposits. There were no one-way deposits at March 31, 2024 and December 31, 2023. The composition of network deposits as of March 31, 2024 and December 31, 2023 was as follows:

(in thousands)	March 31, 2024	December 31, 2023
CDARS	$ 18,387	$ 16,325
ICS	611,104	620,199
Total network deposits	$ 629,491	$ 636,524

Interest expense recognized on interest-bearing deposits for periods ended March 31, 2024 and 2023 consisted of the following:

	Three months ended	
(in thousands)	March 31, 2024	March 31, 2023
Interest-bearing transaction accounts	$ 1,126	$ 430
Savings accounts	861	545
Money market accounts	12,155	5,439
Time accounts, $250 or more	3,824	1,963
Other time accounts	1,545	1,001
Total interest expense on interest-bearing deposits	$ 19,511	$ 9,378

Note 6: Long Term Debt and Other Borrowings

Subordinated notes: On August 17, 2022, the Company completed a private placement of $75.0 million of fixed-to-floating rate subordinated notes to certain qualified investors, of which $19.3 million was purchased by existing or former members of the board of directors and their affiliates. The notes will be used for capital management and general corporate purposes, including, without limitation, the redemption of existing subordinated notes. The subordinated notes have a maturity date of September 1, 2032 and bear interest, payable semi-annually, at the rate of 6.00% per annum until September 1, 2027. On that date, the interest rate will be adjusted to float at a rate equal to the three-month Term SOFR plus 329.0 basis points (8.58% as of March 31, 2024) until maturity. The notes include a right of prepayment, on or after August 17, 2027 or, in certain limited circumstances, before that date. The indebtedness evidenced by the subordinated notes, including principal and interest, is unsecured and subordinate and junior in right to payment to general and secured creditors and depositors of the Company.

The subordinated notes have been structured to qualify as Tier 2 capital for the Company for regulatory capital purposes. Eligible amounts will be phased out by 20% per year beginning five years before the maturity date of the notes. Debt issuance costs incurred in conjunction with the notes were $1.5 million, of which $0.2 million has been amortized as of March 31, 2024. The Company reflects debt issuance costs as a direct deduction from the face of the note. The debt issuance costs are amortized into interest expense through the maturity period. At March 31, 2024 and December 31, 2023, the carrying value of the Company’s subordinated notes outstanding was $73.8 million and $73.7 million, respectively.

Other borrowings: The Company entered into an agreement with the FHLB which granted the FHLB a blanket lien on certain loans receivable as collateral for a borrowing line. The Company’s total financing availability is based on the dollar volume of qualifying loan collateral. The Company’s total financing availability with the FHLB is decreased by outstanding borrowings and letters of credit (“LCs”) issued on behalf of the Company, as follows:

(in thousands)	March 31, 2024	December 31, 2023
Total financing ability from the FHLB	$ 1,002,910	$ 996,712
Less: outstanding borrowings	20,000	170,000
Less: LCs pledged to secure State of California deposits	146,500	271,500
Less: LCs pledged to secure local agency deposits	425,000	410,000
Total LCs issued	571,500	681,500
Available borrowing capacity with the FHLB	$ 411,410	$ 145,212

At March 31, 2024 and December 31, 2023, the Company had a borrowing line available from the Federal Reserve Discount Window. The borrowing line is secured by certain liens on the Company’s loans and certain available-for-sale securities. The Company’s financing availability with the Federal Reserve Discount Window is as follows:

(in thousands)	March 31, 2024	December 31, 2023
Total financing ability from the Federal Reserve Discount Window	$ 807,143	$ 770,572
Less: outstanding borrowings	100,000	—
Available borrowing capacity with the Federal Reserve Discount Window	$ 707,143	$ 770,572

At March 31, 2024 and December 31, 2023, the Company had five unsecured federal funds lines of credit with its correspondent banks totaling $175.0 million. There were no amounts outstanding at March 31, 2024 and December 31, 2023.

Note 7: Shareholders’ Equity

(a) EPS

Basic EPS is net income divided by the weighted average number of common shares outstanding during the period less average unvested restricted stock awards (“RSAs”). Diluted EPS includes the dilutive effect of additional potential common shares related to unvested RSAs using the treasury stock method. The Company has two forms of outstanding common stock: common stock and unvested RSAs. Holders of unvested RSAs receive non-forfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings, and therefore the RSAs are considered participating securities. However, under the two-class method, the difference in EPS is not significant for these participating securities.

(in thousands, except share count and earnings per common share)	Three months ended March 31, 2024	Three months ended March 31, 2023
Net income	$ 10,631	$ 13,161
Basic weighted average common shares outstanding	17,190,867	17,150,174
Add: Dilutive effects of assumed vesting of restricted stock	82,127	44,710
Total dilutive weighted average common shares outstanding	17,272,994	17,194,884
Earnings per common share:		
Basic EPS	$ 0.62	$ 0.77
Diluted EPS	$ 0.62	$ 0.77

The Company did not have any anti-dilutive shares at March 31, 2024 or March 31, 2023.

(b) Dividends

On January 18, 2024, the board of directors declared a $0.20 per common share dividend, totaling $3.5 million.

(c) Stock-Based Incentive Arrangement

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

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

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

Non-cash stock compensation expense recognized for the three months ended March 31, 2024 and 2023 was $0.3 million and $0.2 million, respectively.

At March 31, 2024 and 2023, there were 162,348 and 108,363 unvested restricted shares, respectively. As of March 31, 2024, there was approximately $2.9 million of unrecognized compensation expense related to the 162,348 unvested restricted shares. The holders of unvested RSAs are entitled to dividends at the same per-share ratio as holders of common stock. Tax benefits for dividends paid on unvested RSAs are recorded as tax benefits in the consolidated statements of income with a corresponding decrease to current taxes payable. Such tax benefits are expected to be recognized over the weighted average term remaining on the unvested restricted shares of 3.37 years as of March 31, 2024. The impact of tax benefits for dividends paid on unvested restricted stock on the Company's unaudited consolidated statements of income for the three months ended March 31, 2024 and 2023 was immaterial.

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

	For the three months ended March 31,			
	2024		2023	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of the period balance	69,338	$ 20.53	96,826	$ 20.34
Shares granted	96,380	21.97	16,978	28.52
Shares vested	(3,252)	28.51	(5,441)	24.28
Shares forfeited	(118)	20.00	—	—
End of the period balance	162,348	$ 21.22	108,363	$ 21.43

Note 8: Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

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

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

(in thousands)	March 31, 2024	December 31, 2023
Commercial lines of credit	$ 189,207	$ 181,855
Undisbursed construction loans	123,602	134,828
Undisbursed commercial real estate loans	105,633	107,712
Agricultural lines of credit	28,085	24,635
Undisbursed residential real estate loans	3,904	6,538
Undisbursed agricultural real estate loans	1,200	1,200
Other	1,866	2,119
Total commitments and standby letters of credit	$ 453,497	$ 458,887

The Company records an allowance for credit losses on unfunded loan commitments at the consolidated balance sheet date based on estimates of the probability that these commitments will be drawn upon according to historical utilization experience of the different types of commitments and historical loss rates determined for pooled funded loans. The allowance for credit losses on unfunded commitments totaled $1.1 million as of March 31, 2024 and $1.2 million as of December 31, 2023, which is recorded in “Interest payable and other liabilities” in the unaudited consolidated balance sheets.

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

In management’s judgment, a concentration of loans exists in real estate related loans, which represented approximately 91.86% of the Company’s loan portfolio at March 31, 2024 and 92.30% of the Company’s loan portfolio at December 31, 2023. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, or a decline in real estate values in the Company’s primary market areas in particular, could have an adverse impact on the collectability of these loans. Personal and business incomes represent the primary source of repayment for the majority of these loans.

Deposit concentrations: At March 31, 2024, the Company had 92 deposit relationships that exceeded $5.0 million each, totaling $1.7 billion, or approximately 57.63% of total deposits. The Company’s largest single deposit relationship at March 31, 2024 totaled $200.9 million, or approximately 6.80% 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 approximately $24.7 million and $22.3 million at March 31, 2024 and December 31, 2023, respectively.

Litigation Matters

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

Note 9: Subsequent Events

On April 18, 2024, the Board of Directors of the Company authorized a cash dividend of $0.20 per common share, payable on May 13, 2024 to shareholders of record as of May 6, 2024.

On March 28, 2024, the Company entered into an underwriting agreement with Keefe, Bruyette & Woods, Inc., as representative of the several underwriters named in Schedule I thereto (the “Underwriters”), to issue and sell up to 3,967,500 shares of common stock, including up to 517,500 shares that could be purchased by the Underwriters pursuant to a 30-day option granted to the Underwriters by the Company, at a public offering price of $21.75 per share (the “2024 Public Offering”). On April 2, 2024, the Company closed the 2024 Public Offering and issued 3,450,000 shares of its common stock, and on April 10, 2024, the Company issued an additional 517,500 shares of its common stock to the Underwriters, pursuant to the Underwriters’ full exercise of their option to purchase additional shares. When combined with the shares sold in the closing that occurred on April 2, 2024, the Company sold an aggregate of 3,967,500 shares of its common stock at a public offering price of $21.75 per share. The net proceeds to the Company, after deducting underwriting discounts, commissions, and estimated offering expenses of approximately $0.7 million, were approximately $80.8 million.

The Company has a shelf registration statement on file with the SEC registering $250.0 million for any combination of equity or debt securities, depository shares, warrants, purchase contracts, purchase units, subscription rights, and units in one or more offerings. The 2024 Public Offering used $86.3 million of the Company’s shelf registration statement on file with the SEC.

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 2023 Annual Report on Form 10-K, which was filed with the SEC on February 23, 2024. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

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

Cautionary Note Regarding Forward-Looking Statements

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

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

- our ability to comply with various governmental and regulatory requirements applicable to financial institutions, including supervisory actions by federal and state banking agencies;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- risks associated with unauthorized access, cybersecurity breaches, cyber-crime, and other threats and disruptions to data security;
- our ability to implement, maintain, and improve effective risk management framework, disclosure controls and procedures, and internal controls over financial reporting;
- our ability to adopt and successfully integrate new initiatives or technologies into our business in a strategic manner;
- our ability to attract and retain executive officers and key employees and their customer and community relationships;
- the impact of any future U.S. federal government shutdown and uncertainty regarding the U.S. federal government's debt limit and credit rating;
- the occurrence or impact of climate change or natural or man-made disasters or calamities, such as wildfires, droughts, mudslides, floods, and earthquakes, and particularly in Northern California and California;
- changes in and impact of local, regional, and global business, economic, and political conditions and geopolitical events, such as pandemics, civil unrest, wars, and acts of terrorism; and
- other factors that are discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The foregoing factors could cause results or performance to materially differ from those expressed in our forward-looking statements, should not be considered exhaustive, and should be read together with other cautionary statements that are included in this report and those discussed in the section entitled "Risk Factors" of our 2023 Annual Report on Form 10-K and other filings we may make with the SEC, copies of which are available from us at no charge. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We disclaim any duty to revise or update the forward-looking statements, whether written or oral, to reflect actual results or changes in the factors affecting the forward-looking statements, except as specifically required by law.

Company Overview

Headquartered in the greater Sacramento metropolitan area of California, Five Star Bancorp is a bank holding company that operates through its wholly owned subsidiary, Five Star Bank, a California state-chartered non-member bank. We provide a broad range of banking products and services to small and medium-sized businesses, professionals, and individuals primarily in Northern California through seven branch offices. Our mission is to strive to become the top business bank in all markets we serve through exceptional service, deep connectivity, and customer empathy. We are dedicated to serving real estate, agricultural, faith-based, and small to medium-sized enterprises. We aim to consistently deliver value that meets or exceeds the expectations of our shareholders, customers, employees, business partners, and community. We refer to our mission as "purpose-driven and integrity-centered banking." At March 31, 2024, we had total assets of $3.5 billion, total loans held for investment, net of allowance for credit losses, of $3.1 billion, and total deposits of $3.0 billion.

Critical Accounting Estimates

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Quarterly Reports on Form 10-Q and, therefore, do not include all footnotes as would be necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity, and cash flows in conformity with GAAP as contained within the FASB's ASC and the rules and regulations of the SEC, including the instructions to Regulation S-X. However, these interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity, and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as filed in our 2023 Annual Report on Form 10-K and the notes thereto.

Our most significant accounting policies and our critical accounting estimates are described in greater detail in Note 1, Basis of Presentation, in our audited consolidated financial statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates included in our 2023 Annual Report on Form 10-K. We have identified accounting policies and estimates that, due to the difficult, subjective, or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our unaudited consolidated financial statements to those judgments and assumptions, are critical to an understanding of our consolidated financial condition and results of operations. We believe that the judgments, estimates, and assumptions used in the preparation of our financial statements are reasonable and appropriate, based on the information available at the time they were made. However, actual results may differ from those estimates, and these differences may be material. There have been no significant changes concerning our critical accounting estimates as described in our 2023 Annual Report on Form 10-K.

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

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

Executive Summary

Net income for the three months ended March 31, 2024 totaled $10.6 million, as compared to net income of $13.2 million for the three months ended March 31, 2023.

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

- ***Deposits.*** Total deposits decreased by $71.1 million from $3.03 billion at December 31, 2023 to $2.96 billion at March 31, 2024, primarily due to significant decreases in wholesale deposits, which the Company defines as brokered deposits and public time deposits. In the first three months of 2024, brokered deposits and public time deposits decreased by $58.1 million and $125.0 million, respectively. Non-interest-bearing deposits decreased by $13.7 million in the first three months of 2024 to $817.4 million, and represented 27.65% of total deposits at March 31, 2024, as compared to 27.46% of total deposits at December 31, 2023. Non-wholesale deposits increased by $112.0 million in the first three months of 2024. Our loan to deposit ratio was 105.37% at March 31, 2024, as compared to 102.19% at December 31, 2023.

- ***Assets.*** Total assets were $3.5 billion at March 31, 2024, representing a $116.8 million, or 3.25%, decrease compared to $3.6 billion at December 31, 2023.

- ***Loans.*** Total loans held for investment were $3.10 billion at March 31, 2024, as compared to $3.08 billion at December 31, 2023, an increase of $22.4 million, or 0.73%. The increase was primarily attributable to increases of $35.8 million in consumer and other loans, $2.8 million in residential loans, and $2.7 million in residential construction loans, partially offset by a $21.8 million decrease in commercial secured loans.

- ***Credit Quality.*** Credit quality remains strong, with non-accrual loans representing $1.9 million, or 0.06% of total loans held for investment, at March 31, 2024, as compared to $2.0 million, or 0.06% of total loans held for investment, at December 31, 2023. The ratio of the allowance for credit losses to total loans held for investment was 1.12% at March 31, 2024 and December 31, 2023.

- ***Net Interest Margin.*** Net interest margin was 3.14% for the three months ended March 31, 2024, and 3.75% for the three months ended March 31, 2023. The decrease in net interest margin period-over-period was primarily due to an increase in deposit costs exceeding increases in yields on earning assets, as the effective Federal Funds rate increased from 4.83% at March 31, 2023 to 5.33% at March 31, 2024.

- ***Efficiency Ratio.*** Efficiency ratio was 44.50% for the three months ended March 31, 2024, up from 36.43% for the corresponding period of 2023 due to the Company's expansion into the San Francisco Bay Area beginning in the second quarter of 2023.

- ***Capital Ratios***. All capital ratios were above well-capitalized regulatory thresholds as of March 31, 2024. The total risk-based capital ratio for the Company was 12.34% at March 31, 2024, as compared to 12.30% at December 31, 2023. The Tier 1 leverage ratio was 8.63% at March 31, 2024, as compared to 8.73% at December 31, 2023. 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 $0.20 per share on January 18, 2024.

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

(dollars in thousands)	March 31, 2024	December 31, 2023
Selected financial condition data:		
Total assets	$ 3,476,360	$ 3,593,125
Total loans held for investment	$ 3,104,130	$ 3,081,719
Total deposits	$ 2,955,772	$ 3,026,896
Total subordinated notes, net	$ 73,786	$ 73,749
Total shareholders' equity	$ 292,580	$ 285,774
Asset quality ratios:		
Allowance for credit losses to total loans held for investment	1.12 %	1.12 %
Allowance for credit losses to nonperforming loans	1,806.73 %	1,752.70 %
Nonperforming loans to total loans held for investment	0.06 %	0.06 %
Capital ratios:		
Total capital (to risk-weighted assets)	12.34 %	12.30 %
Tier 1 capital (to risk-weighted assets)	9.13 %	9.07 %
Common equity Tier 1 capital (to risk-weighted assets)	9.13 %	9.07 %
Tier 1 leverage	8.63 %	8.73 %
Total shareholders' equity to total assets	8.42 %	7.95 %
Tangible shareholders' equity to tangible assets[1]	8.42 %	7.95 %

	For the three months ended	
(dollars in thousands, except per share data)	March 31, 2024	March 31, 2023
Selected operating data:		
Net interest income	$ 26,744	$ 29,148
Provision for credit losses	$ 900	$ 900
Non-interest income	$ 1,833	$ 1,371
Non-interest expense	$ 12,716	$ 11,118
Net income	$ 10,631	$ 13,161
Per common share data:		
Earnings per common share:		
Basic	$ 0.62	$ 0.77
Diluted	$ 0.62	$ 0.77
Book value per share	$ 16.86	$ 15.10
Tangible book value per share[2]	$ 16.86	$ 15.10
Performance and other financial ratios:		
ROAA	1.22 %	1.65 %
ROAE	14.84 %	20.94 %
Net interest margin	3.14 %	3.75 %
Cost of funds	2.62 %	1.53 %
Efficiency ratio	44.50 %	36.43 %
Cash dividend payout ratio on common stock[3]	32.26 %	19.48 %

1 Tangible shareholders' equity to tangible assets is considered a non-GAAP financial measure. See the section entitled "Non-GAAP Financial Measures" for a reconciliation of our non-GAAP financial measures to the most directly

comparable GAAP financial measure. Tangible shareholders' equity to tangible assets is defined as total equity less goodwill and other intangible assets, divided by total assets less goodwill and other intangible assets. The most directly comparable GAAP financial measure is total shareholders' equity to total assets. We had no goodwill or other intangible assets 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.

[2] Tangible book value per share is considered a non-GAAP financial measure. See the section entitled "Non-GAAP Financial Measures" for a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measure. Tangible book value per share is defined as total shareholders' equity less goodwill and other intangible assets, divided by the outstanding number of common shares at the end of the period. The most directly comparable GAAP financial measure is book value per share. We had no goodwill or other intangible assets at the end of any period indicated. As a result, tangible book value per share is the same as book value per share at the end of each of the periods indicated.

[3] Cash dividend payout ratio on common stock is calculated as dividends on common shares divided by basic earnings per common share.

RESULTS OF OPERATIONS

The following discussion of our results of operations compares the three months ended March 31, 2024 to the three months ended March 31, 2023. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2024.

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, 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.

Net interest income decreased $2.4 million to $26.7 million for the three months ended March 31, 2024 compared to March 31, 2023 and our net interest margin of 3.14% for the three months ended March 31, 2024 decreased from 3.75% for the three months ended March 31, 2023. The decrease in net interest income and contraction of our net interest margin was primarily due to higher rates paid on interest-bearing liabilities, which exceeded higher yields earned on interest-earning assets. These changes related to the change in the effective Federal Funds rate from 4.83% at March 31, 2023 to 5.33% at March 31, 2024. Additional detail relating to net interest margin in each period is provided below.

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

	For the three months ended March 31, 2024			For the three months ended March 31, 2023		
(dollars in thousands)	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Assets						
Interest-earning deposits in banks[1]	$ 233,002	$ 3,102	5.35 %	$ 200,541	$ 2,167	4.38 %
Investment securities[1,2]	109,177	653	2.41 %	119,489	650	2.21 %
Loans held for investment and sale[1,3]	3,082,290	43,786	5.71 %	2,836,070	37,494	5.36 %
Total interest-earning assets[1]	3,424,469	47,541	5.58 %	3,156,100	40,311	5.18 %
Interest receivable and other assets, net[4]	93,983			69,253		
Total assets	$ 3,518,452			$ 3,225,353		
Liabilities and shareholders' equity						
Interest-bearing transaction accounts[1]	$ 300,325	$ 1,126	1.51 %	$ 379,593	$ 433	0.46 %
Savings accounts[1]	124,561	861	2.78 %	155,233	545	1.42 %
Money market accounts[1]	1,410,264	12,155	3.47 %	1,087,122	5,436	2.03 %
Time accounts[1]	429,586	5,369	5.03 %	300,952	2,964	3.99 %
Subordinated notes and other borrowings[1]	82,775	1,286	6.25 %	125,691	1,785	5.76 %
Total interest-bearing liabilities	2,347,511	20,797	3.56 %	2,048,591	11,163	2.21 %
Demand accounts	842,105			901,491		
Interest payable and other liabilities	40,730			20,344		
Shareholders' equity	288,106			254,927		
Total liabilities and shareholders' equity	$ 3,518,452			$ 3,225,353		
Net interest spread[5]			2.02 %			2.97 %
Net interest income/margin[6]		$ 26,744	3.14 %		$ 29,148	3.75 %

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 fair value. Investment security interest is earned on a 30/360 day basis monthly. Yields are not calculated on a tax-equivalent basis.

3 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. Allowance for credit losses is not included in total loan balances.

4 Allowance for credit losses is included in interest receivable and other assets, net.

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

6 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 March 31, 2024 compared to the three months ended March 31, 2023		
(dollars in thousands)	**Volume**	**Yield/Rate**	**Total Increase (Decrease)**
Interest-earning deposits in banks	$ 446	$ 489	$ 935
Investment securities	(59)	62	3
Loans held for investment and sale	3,694	2,598	6,292
Total interest-earning assets	4,081	3,149	7,230
Interest-bearing transaction accounts	(282)	975	693
Savings accounts	(218)	534	316
Money market accounts	2,776	3,943	6,719
Time accounts	1,630	775	2,405
Subordinated notes and other borrowings	(651)	152	(499)
Total interest-bearing liabilities	3,255	6,379	9,634
Changes in net interest income/margin	$ 826	$ (3,230)	$ (2,404)

Net interest income decreased $2.4 million and net interest margin decreased 61 basis points for the three months ended March 31, 2024 compared to the same quarter of the prior year. The decrease in net interest income is primarily attributable to an additional $10.1 million in deposit interest expense due to increases in interest rates and average balances compared to the same quarter of the prior year. The cost of interest-bearing deposits increased 148 basis points compared to the same quarter of the prior year, while average balances increased 17.78%. In addition, the average balance of non-interest-bearing deposits decreased by $59.4 million compared to the same quarter of the prior year. The increase in deposit interest expense was partially offset by an increase in total interest income of $7.2 million compared to the same quarter of the prior year. Average loan yields increased 35 basis points compared to the same quarter of the prior year, while average balances increased 8.68%.

Provision for Credit Losses

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

We recorded a $0.9 million provision for credit losses in the first quarter of 2024 and in the same period of 2023. The provision recorded during the three months ended March 31, 2024 was the net effect of charge-offs, recoveries, increases in quantitative reserves, and reductions in reserves for qualitative factors.

Non-interest Income

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

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

	For the three months ended			
(dollars in thousands)	**March 31, 2024**	**March 31, 2023**	**$ Change**	**% Change**
Service charges on deposit accounts	$ 188	$ 117	$ 71	60.68 %
Gain on sale of loans	369	598	(229)	(38.29)%
Loan-related fees	429	308	121	39.29 %
FHLB stock dividends	332	193	139	72.02 %
Earnings on BOLI	142	102	40	39.22 %
Other income	373	53	320	603.77 %
Total non-interest income	$ 1,833	$ 1,371	$ 462	33.70 %

Gain on sale of loans. The decrease related primarily to an overall decline in the volume of loans sold, partially offset by an improvement in the effective yield of loans sold during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. During the three months ended March 31, 2024, approximately $5.2 million of loans were sold with an effective yield of 7.08%, as compared to approximately $12.7 million of loans sold with an effective yield of 4.72% during the three months ended March 31, 2023.

Loan-related fees. The increase related to the recognition of $0.1 million of swap referral fees during the three months ended March 31, 2024, which did not occur during the three months ended March 31, 2023.

FHLB stock dividends. The increase related to a higher annualized dividend rate and total average shares outstanding from 7.00% and 108,901 shares for the three months ended March 31, 2023 to 8.75% and 150,000 for the three months ended March 31, 2024.

Other income. The increase related to a $0.3 million gain recorded for distributions received on equity investments in venture-backed funds during the three months ended March 31, 2024, which did not occur during the three months ended March 31, 2023.

Non-interest Expense

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

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

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

	For the three months ended			
(dollars in thousands)	**March 31, 2024**	**March 31, 2023**	**$ Change**	**% Change**
Salaries and employee benefits	$ 7,577	$ 6,618	$ 959	14.49 %
Occupancy and equipment	626	523	103	19.69 %
Data processing and software	1,157	872	285	32.68 %
FDIC insurance	400	402	(2)	(0.50)%
Professional services	707	631	76	12.04 %
Advertising and promotional	460	418	42	10.05 %
Loan-related expenses	297	255	42	16.47 %
Other operating expenses	1,492	1,399	93	6.65 %
Total non-interest expense	$ 12,716	$ 11,118	$ 1,598	14.37 %

Salaries and employee benefits. The increase during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. related primarily to: (i) a $0.6 million increase in salaries and benefits for new employees hired since June 2023 to support expansion into the San Francisco Bay Area; (ii) a $0.2 million increase in commissions earned, largely due to commissions paid to the San Francisco Bay Area team, which did not exist during the three months ended March 31, 2023; and (iii) a $0.1 million decrease in loan origination costs due to lower loan production period-over-period.

Occupancy and equipment. The $0.1 million increase related to rent expense for temporary office space to support the San Francisco Bay Area expansion during the three months ended March 31, 2024, which did not exist during the three months ended March 31, 2023.

Data processing and software. The increase 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.

Other operating expenses. The increase was primarily due to a $0.1 million increase in IntraFi Network fees resulting from an overall increase in balances carried in the network.

Provision for Income Taxes

The provision for income taxes was $4.3 million for the three months ended March 31, 2024, as compared to $5.3 million for the three months ended March 31, 2023. There was a decline in the provision due to an overall decrease in taxable income. The effective income tax rates for the three months ended March 31, 2024 and 2023 were 28.94% and 28.86%, respectively.

FINANCIAL CONDITION SUMMARY

The following discussion compares our financial condition as of March 31, 2024 to our financial condition as of December 31, 2023. The following table summarizes selected components of our unaudited consolidated balance sheets as of March 31, 2024 and December 31, 2023.

(dollars in thousands)	March 31, 2024	December 31, 2023
Total assets	$ 3,476,360	$ 3,593,125
Cash and cash equivalents	$ 185,325	$ 321,576
Total investments	$ 108,006	$ 111,160
Loans held for investment	$ 3,104,130	$ 3,081,719
Total deposits	$ 2,955,772	$ 3,026,896
Subordinated notes, net	$ 73,786	$ 73,749
Total shareholders’ equity	$ 292,580	$ 285,774

Total Assets

At March 31, 2024, total assets were $3.5 billion, a decrease of $116.8 million from $3.6 billion at December 31, 2023, primarily due to a $136.3 million decrease in cash and cash equivalents, partially offset by a $22.4 million increase in total loans held for investment.

Cash and Cash Equivalents

Total cash and cash equivalents were $185.3 million at March 31, 2024, a decrease of $136.3 million from $321.6 million at December 31, 2023. The decrease in cash and cash equivalents was primarily due to decreases in deposits of $71.1 million, a decrease in borrowings of $50.0 million, and $27.0 million in loan originations, net of repayments, partially offset by income before provision for income taxes of $15.0 million.

Investment Portfolio

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

Our total securities available-for-sale and held-to-maturity amounted to $108.0 million at March 31, 2024 and $111.2 million at December 31, 2023, representing a decrease of $3.2 million period-over-period. The decrease to available-for-sale securities was primarily due to maturities, prepayments, and calls of $2.0 million and an unrealized loss on securities of $1.0 million, with the remainder of the change due to amortization of premiums. For the three months ended March 31, 2024, other comprehensive loss was $0.7 million, primarily due to rate changes and other market conditions on securities.

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

	As of			
	March 31, 2024		December 31, 2023	
(dollars in thousands)	Carrying Value	% of Total	Carrying Value	% of Total
Available-for-sale (at fair value):				
U.S. government agency securities	$ 9,929	9.19 %	$ 10,541	9.48 %
Mortgage-backed securities	54,945	50.87 %	56,973	51.25 %
Obligations of states and political subdivisions	38,023	35.20 %	38,459	34.60 %
Collateralized mortgage obligations	317	0.29 %	332	0.30 %
Corporate bonds	1,792	1.67 %	1,778	1.60 %
Total available-for-sale	105,006	97.22 %	108,083	97.23 %
Held-to-maturity (at amortized cost):				
Obligations of states and political subdivisions	3,000	2.78 %	3,077	2.77 %
Total	$ 108,006	100.00 %	$ 111,160	100.00 %

The following table presents the carrying value of our securities by their stated maturities, as well as the weighted average yields for each maturity range, as of March 31, 2024:

	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 Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Available-for-sale:										
U.S. government agency securities	$ —	— %	$ 836	3.72 %	$ 1,660	5.37 %	$ 7,433	6.64 %	$ 9,929	6.18 %
Mortgage-backed securities	—	— %	—	— %	580	2.74 %	54,365	1.77 %	54,945	1.78 %
Obligations of states and political subdivisions	—	— %	362	0.84 %	6,908	1.66 %	30,753	1.77 %	38,023	1.74 %
Collateralized mortgage obligations	—	— %	—	— %	317	1.76 %	—	— %	317	1.76 %
Corporate bonds	—	— %	1,792	1.25 %	—	— %	—	— %	1,792	1.25 %
Total available-for-sale	—	— %	2,990	1.89 %	9,465	2.38 %	92,551	2.16 %	105,006	2.17 %
Held-to-maturity:										
Obligations of states and political subdivisions	245	6.00 %	920	6.00 %	1,340	6.00 %	495	6.00 %	3,000	6.00 %
Total	$ 245	6.00 %	$ 3,910	2.86 %	$ 10,805	2.83 %	$ 93,046	2.18 %	$ 108,006	2.28 %

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, 2023:

	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 Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Available-for-sale:										
U.S. government agency securities	$ —	— %	$ 800	3.44 %	$ 2,010	5.36 %	$ 7,731	5.77 %	$ 10,541	5.51 %
Mortgage-backed securities	—	— %	—	— %	609	2.74 %	56,364	1.76 %	56,973	1.77 %
Obligations of states and political subdivisions	—	— %	367	0.84 %	5,838	1.71 %	32,254	1.76 %	38,459	1.74 %
Collateralized mortgage obligations	—	— %	—	— %	332	1.76 %	—	— %	332	1.76 %
Corporate bonds	—	— %	1,778	1.25 %	—	— %	—	— %	1,778	1.25 %
Total available-for-sale	—	— %	2,945	1.79 %	8,789	2.62 %	96,349	2.08 %	108,083	2.12 %
Held-to-maturity:										
Obligations of states and political subdivisions	277	6.00 %	935	6.00 %	1,365	6.00 %	500	6.00 %	3,077	6.00 %
Total	$ 277	6.00 %	$ 3,880	2.81 %	$ 10,154	3.07 %	$ 96,849	2.10 %	$ 111,160	2.22 %

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

Loan Portfolio

Our loan portfolio is our largest class of interest-earning assets and typically provides higher yields than other types of interest-earning assets. Associated with the higher yields is an inherent amount of credit risk, which we attempt to mitigate with strong underwriting standards. As of March 31, 2024 and December 31, 2023, our total loans amounted to $3.11 billion and $3.09 billion, respectively. The following table presents the balance and associated percentage of each major product type within our portfolio as of the dates indicated.

	As of			
	March 31, 2024		December 31, 2023	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans
Loans held for investment:				
Real estate:				
Commercial	$ 2,687,456	86.23 %	$ 2,685,419	86.76 %
Commercial land and development	14,678	0.47 %	15,551	0.50 %
Commercial construction	62,513	2.01 %	62,863	2.03 %
Residential construction	18,141	0.58 %	15,456	0.50 %
Residential	28,685	0.92 %	25,893	0.84 %
Farmland	51,422	1.65 %	51,669	1.67 %
Commercial:				
Secured	143,273	4.60 %	165,109	5.33 %
Unsecured	26,175	0.84 %	23,850	0.77 %
Consumer and other	73,917	2.37 %	38,166	1.23 %
Loans held for investment, gross	3,106,260	99.67 %	3,083,976	99.63 %
Loans held for sale:				
Commercial	10,243	0.33 %	11,464	0.37 %
Total loans, gross	3,116,503	100.00 %	3,095,440	100.00 %
Net deferred loan fees	(2,130)		(2,257)	
Total loans	$ 3,114,373		$ 3,093,183	

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

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

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

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

The following tables present the commercial real estate loan balance, associated percentage of commercial real estate concentrations, estimated real estate collateral values, and related loan-to-value ("LTV") ranges by collateral type as of the dates indicated. Revolving lines of credit with zero balance and 0.00% LTV are excluded from this table. Collateral values are determined at origination using third-party real estate appraisals or evaluations. Updated appraisals, which are included in the table below, may be obtained for loans that are downgraded to watch or substandard. Loans over $2.0 million are reviewed annually, at which time an internal assessment of collateral values is completed.

(dollars in thousands)	**Loan Balance**	**% of Commercial Real Estate**	**Collateral Value**	**Minimum LTV**	**Maximum LTV**
March 31, 2024					
Manufactured home community	$ 847,510	31.54 %	$ 1,502,434	14.47 %	74.52 %
RV Park	345,398	12.85 %	603,311	18.24 %	75.00 %
Retail	273,063	10.16 %	542,916	6.79 %	73.76 %
Faith-based	185,545	6.90 %	491,049	8.30 %	74.50 %
Industrial	185,377	6.90 %	452,425	7.14 %	82.90 %
Multifamily	177,860	6.62 %	371,684	12.84 %	75.00 %
Mini storage	177,256	6.60 %	360,832	16.48 %	75.38 %
Office	134,469	5.00 %	300,469	5.80 %	73.13 %
All other types[1]	360,978	13.43 %	738,991	3.36 %	152.17 %
Total[2]	$ 2,687,456	100.00 %	$ 5,364,111		
December 31, 2023					
Manufactured home community	$ 813,687	30.30 %	$ 1,430,224	16.80 %	74.52 %
RV Park	343,817	12.80 %	599,691	18.29 %	75.00 %
Retail	273,100	10.17 %	540,660	6.89 %	74.07 %
Multifamily	211,598	7.88 %	427,948	13.12 %	75.00 %
Faith-based	184,799	6.88 %	488,160	8.33 %	74.54 %
Mini storage	176,380	6.57 %	358,395	16.56 %	70.00 %
Industrial	173,192	6.45 %	417,439	7.48 %	83.26 %
Office	135,928	5.06 %	298,989	9.07 %	73.52 %
All other types[1]	372,918	13.89 %	756,541	4.00 %	152.33 %
Total[2]	$ 2,685,419	100.00 %	$ 5,318,047		

1 Types of collateral in the "all other types" category are those that individually make up less than 5.00% of the commercial real estate concentration.

2 Minimum LTV and maximum LTV not shown for aggregated totals, as such values are meaningful only when presented by specific category.

Over the past several years, we have experienced significant growth in our loan portfolio, although the relative composition of the portfolio has not changed materially. Our primary focus remains commercial real estate lending (including commercial, commercial land and development, and commercial construction), which constitutes 88.97% of loans held for investment at March 31, 2024. Commercial secured lending represents 4.63% of loans held for investment at March 31, 2024. We sell the guaranteed portion of all SBA 7(a) loans in the secondary market and will continue to do so as long as market conditions continue to be favorable.

We recognize that our commercial real estate loan concentration is significant within our balance sheet. Commercial real estate loan balances as a percentage of risk-based capital were 669.49% and 682.72% as of March 31, 2024 and December 31, 2023, respectively. We have established internal concentration limits in the loan portfolio for commercial real estate loans by sector (e.g., manufactured home communities, self-storage, hospitality, etc.). All loan sectors were within our established limits as of March 31, 2024. Additionally, our loans are geographically concentrated with borrowers and collateralized properties primarily in California.

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

The following table sets forth the contractual maturities of our loan portfolio as of March 31, 2024:

(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	$ 30,322	$ 289,132	$ 2,292,288	$ 75,714	$ 2,687,456
Commercial land and development	11,372	2,310	996	—	14,678
Commercial construction	30,330	10,263	21,920	—	62,513
Residential construction	14,228	3,913	—	—	18,141
Residential	269	6,494	20,974	948	28,685
Farmland	2,140	4,701	44,581	—	51,422
Commercial:					
Secured	32,098	33,547	87,460	411	153,516
Unsecured	4,502	8,514	13,159	—	26,175
Consumer and other	562	6,555	66,800	—	73,917
Total	$ 125,823	$ 365,429	$ 2,548,178	$ 77,073	$ 3,116,503

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

(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	$ 57,443	$ 271,306	$ 2,284,482	$ 72,188	$ 2,685,419
Commercial land and development	11,406	3,353	792	—	15,551
Commercial construction	27,078	10,377	25,408	—	62,863
Residential construction	11,543	3,913	—	—	15,456
Residential	286	5,916	18,735	956	25,893
Farmland	2,835	3,932	44,902	—	51,669
Commercial:					
Secured	36,844	48,491	90,826	412	176,573
Unsecured	574	10,789	12,487	—	23,850
Consumer and other	857	5,638	31,671	—	38,166
Total	$ 148,866	$ 363,715	$ 2,509,303	$ 73,556	$ 3,095,440

The following table sets forth the sensitivity to interest rate changes of our loan portfolio as of March 31, 2024:

(dollars in thousands)	Fixed Interest Rates	Floating or Adjustable Rates	Total
Real estate:			
Commercial	$ 578,389	$ 2,109,067	$ 2,687,456
Commercial land and development	10,068	4,610	14,678
Commercial construction	—	62,513	62,513
Residential construction	3,913	14,228	18,141
Residential	1,179	27,506	28,685
Farmland	5,298	46,124	51,422
Commercial:			
Secured	37,823	115,693	153,516
Unsecured	17,155	9,020	26,175
Consumer and other	73,874	43	73,917
Total	$ 727,699	$ 2,388,804	$ 3,116,503

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

(dollars in thousands)	Fixed Interest Rates	Floating or Adjustable Rates	Total
Real estate:			
Commercial	$ 570,385	$ 2,115,034	$ 2,685,419
Commercial land and development	10,081	5,470	15,551
Commercial construction	—	62,863	62,863
Residential construction	3,913	11,543	15,456
Residential	1,272	24,621	25,893
Farmland	5,848	45,821	51,669
Commercial:			
Secured	38,029	138,544	176,573
Unsecured	16,343	7,507	23,850
Consumer and other	38,081	85	38,166
Total	$ 683,952	$ 2,411,488	$ 3,095,440

Asset Quality

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

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

Nonperforming Assets

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

SBA Loans

During the three months ended March 31, 2024, the Company sold 18 SBA 7(a) loans with government-guaranteed portions totaling $5.2 million. The Company received gross proceeds of $5.6 million on the loans sold during the three months ended March 31, 2024, resulting in the recognition of net gains on sale of $0.4 million during the same period.

Non-accrual Loans

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

	As of	
(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Non-accrual loans:		
Real estate:		
Commercial	$ 1,852	$ 1,893
Commercial:		
Secured	66	72
Total non-accrual loans	1,918	1,965
Loans past due 90 days or more and still accruing:		
Total loans past due and still accruing	—	—
Total nonperforming loans	1,918	1,965
Real estate owned	—	—
Total nonperforming assets	$ 1,918	$ 1,965
Performing LMs (not included above)	$ —	$ —
Allowance for credit losses to period end nonperforming loans	1,806.73 %	1,752.70 %
Nonperforming loans to loans held for investment	0.06 %	0.06 %
Nonperforming assets to total assets	0.06 %	0.05 %
Nonperforming loans plus performing LMs to loans held for investment	0.06 %	0.06 %

The ratio of nonperforming loans to loans held for investment was 0.06% at March 31, 2024 and December 31, 2023.

Potential Problem Loans

We utilize a risk grading system for our loans to aid us in evaluating the overall credit quality of our real estate loan portfolio and assessing the adequacy of our allowance for credit losses. All loans are grouped into a risk category at the time of origination. Commercial real estate loans over $2.0 million are reevaluated at least annually for proper classification in conjunction with our review of property and borrower financial information. All loans are reevaluated for proper risk grading as new information such as payment patterns, collateral condition, and other relevant information comes to our attention.

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

(dollars in thousands)	Pass	Watch	Substandard	Doubtful	Total
March 31, 2024					
Real estate:					
Commercial	$ 2,648,303	$ 37,301	$ 1,852	$ —	$ 2,687,456
Commercial land and development	14,678	—	—	—	14,678
Commercial construction	62,513	—	—	—	62,513
Residential construction	18,141	—	—	—	18,141
Residential	28,685	—	—	—	28,685
Farmland	51,422	—	—	—	51,422
Commercial:					
Secured	128,595	14,612	66	—	143,273
Unsecured	26,175	—	—	—	26,175
Consumer and other	73,891	15	11	—	73,917
Total	$ 3,052,403	$ 51,928	$ 1,929	$ —	$ 3,106,260
December 31, 2023					
Real estate:					
Commercial	$ 2,658,504	$ 25,023	$ 1,892	$ —	$ 2,685,419
Commercial land and development	15,551	—	—	—	15,551
Commercial construction	62,863	—	—	—	62,863
Residential construction	15,456	—	—	—	15,456
Residential	25,893	—	—	—	25,893
Farmland	51,669	—	—	—	51,669
Commercial:					
Secured	150,451	14,586	72	—	165,109
Unsecured	23,850	—	—	—	23,850
Consumer and other	38,139	15	12	—	38,166
Total	$ 3,042,376	$ 39,624	$ 1,976	$ —	$ 3,083,976

Loans designated as watch and substandard, which are not considered adversely classified, increased to $53.9 million at March 31, 2024 from $41.6 million at December 31, 2023. There were no loans with doubtful risk grades at March 31, 2024 or December 31, 2023.

Allowance for Credit Losses - Loans

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

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

At March 31, 2024, the Company's allowance for credit losses - loans was $34.7 million, as compared to $34.4 million at December 31, 2023. The $0.3 million increase in the allowance is due to a $1.1 million provision for credit losses recorded during the three months ended March 31, 2024, partially offset by net charge-offs of $0.8 million during the same period.

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

	March 31, 2024		December 31, 2023	
(dollars in thousands)	**Allowance for Credit Losses**	**% of Loans to Total Loans**	**Allowance for Credit Losses**	**% of Loans to Total Loans**
Real estate:				
Commercial	$ 28,895	86.23 %	$ 29,015	86.76 %
Commercial land and development	164	0.47 %	178	0.50 %
Commercial construction	697	2.01 %	718	2.03 %
Residential construction	114	0.58 %	89	0.50 %
Residential	164	0.92 %	151	0.84 %
Farmland	438	1.65 %	399	1.67 %
Commercial:				
Secured	3,262	4.93 %	3,314	5.70 %
Unsecured	259	0.84 %	189	0.77 %
Consumer and other	660	2.37 %	378	1.23 %
Total allowance for credit losses	$ 34,653	100.00 %	$ 34,431	100.00 %

The ratio of the allowance for credit losses to total loans held for investment was 1.12% at March 31, 2024 and December 31, 2023.

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

	As of and for the three months ended					
	March 31, 2024			March 31, 2023		
(dollars in thousands)		Activity	% of Average Loans Held for Investment		Activity	% of Average Loans Held for Investment
Average loans held for investment	$	3,069,466		$	2,826,035	
Allowance for credit losses - loans	$	34,431		$	28,389	
Effect of adoption of ASC 326		—			5,262	
Net (charge-offs) recoveries:						
Commercial:						
Secured		(816)	(0.03)%		(396)	(0.01)%
Unsecured		(34)	— %		—	— %
Consumer and other		22	— %		17	— %
Net charge-offs		(828)	(0.03)%		(379)	(0.01)%
Provision for credit losses		1,050			900	
Allowance for credit losses - loans	$	34,653		$	34,172	
Loans held for investment	$	3,104,130		$	2,869,848	
Allowance for credit losses - loans to loans held for investment		1.12 %			1.19 %	

The allowance for credit losses - loans to loans held for investment decreased from 1.19% as of March 31, 2023 to 1.12% as of March 31, 2024. Net charge-offs as a percent of average loans held for investment increased to 0.03% for the three months ended March 31, 2024 from 0.01% for the three months ended March 31, 2023.

Liabilities

During the first three months of 2024, total liabilities decreased by $123.6 million from $3.3 billion as of December 31, 2023 to $3.2 billion as of March 31, 2024. This decrease was primarily due to a decrease in total deposits of $71.1 million, comprised of a decrease of $57.4 million in interest-bearing deposits and a decrease of $13.7 million in non-interest-bearing deposits. Of the $57.4 million decrease in interest-bearing deposits, brokered deposits decreased by $58.1 million and public time deposits decreased by $125.0 million. Both decreases were offset by an increase in non-wholesale deposits of $112.0 million.

Deposits

Representing 92.84% of our total liabilities as of March 31, 2024, deposits are our primary source of funding for our business operations.

Total deposits decreased by $71.1 million, or 2.35%, to $2.96 billion at March 31, 2024 from $3.03 billion at December 31, 2023. Deposit decreases were primarily attributable to decreases in public time and brokered deposits. Non-interest-bearing deposits decreased by $13.7 million from December 31, 2023 to $817.4 million at March 31, 2024, representing 27.65% of total deposits at that date, as compared to 27.46% of total deposits at December 31, 2023. Our loan to deposit ratio was 105.37% at March 31, 2024, as compared to 102.19% at December 31, 2023. We intend to continue to operate our business with close monitoring of the loan to deposit ratio.

The following table summarizes our deposit composition by average deposit balances and average rates paid for the periods indicated:

	For the three months ended					
	March 31, 2024			March 31, 2023		
(dollars in thousands)	Average Amount	Average Rate Paid	% of Total Deposits	Average Amount	Average Rate Paid	% of Total Deposits
Interest-bearing transaction accounts	$ 300,325	1.51 %	9.67 %	$ 379,593	0.46 %	13.44 %
Money market and savings accounts	1,534,825	3.41 %	49.40 %	1,242,355	1.95 %	43.98 %
Time accounts	429,586	5.03 %	13.83 %	300,952	3.99 %	10.66 %
Demand accounts	842,105	— %	27.10 %	901,491	— %	31.92 %
Total deposits	$ 3,106,841	2.53 %	100.00 %	$ 2,824,391	1.35 %	100.00 %

Uninsured and uncollateralized deposits totaled $1.1 billion and $1.0 billion at March 31, 2024 and December 31, 2023, respectively.

As of March 31, 2024, our 37 largest deposit relationships, each accounting for more than $10.0 million, totaled $1.3 billion, or 45.41% of our total deposits. The average age on deposit relationships of more than $5.0 million was approximately 9 years. As of December 31, 2023, our 40 largest deposit relationships, each accounting for more than $10.0 million, totaled $1.5 billion, or 49.80% of our total deposits. Our large deposit relationships are comprised of the following entity types as of the periods indicated:

(dollars in thousands)	March 31, 2024	December 31, 2023
Municipalities	$ 581,859	$ 693,685
Non-profits	220,827	188,252
Businesses	497,543	525,193
Brokered deposits	41,990	100,128
Total	$ 1,342,219	$ 1,507,258

Our largest single deposit relationship at March 31, 2024 related to a non-profit entity. The balance for this customer was $200.9 million, or approximately 6.80% of total deposits as of that date. At December 31, 2023, our largest single deposit relationship related to a government agency and had a balance of $260.0 million, or 8.59% of total deposits as of that date.

The following table sets forth the maturity of time deposits as of March 31, 2024:

(dollars in thousands)	$250,000 or Greater	Less than $250,000	Total	Uninsured Portion
Remaining maturity:				
Three months or less	$ 108,021	$ 17,036	$ 125,057	$ 104,271
Over three through six months	81,391	43,715	125,106	77,641
Over six through twelve months	30,407	4,372	34,779	25,157
Over twelve months	2,157	1,069	3,226	1,157
Total	$ 221,976	$ 66,192	$ 288,168	$ 208,226

FHLB Advances and Other Borrowings

From time to time, we utilize short-term collateralized FHLB borrowings to maintain adequate liquidity. There were borrowings of $20.0 million and $170.0 million outstanding from the FHLB as of March 31, 2024 and December 31, 2023, respectively. There were borrowings of $100.0 million outstanding from the Federal Reserve Discount Window as of March 31, 2024 and no borrowings outstanding from the Federal Reserve Discount Window as of December 31, 2023.

In 2022, we issued subordinated notes of $75.0 million. This debt was issued to investors in private placement transactions. See Note 6, Long Term Debt and Other Borrowings, in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding these subordinated notes. The proceeds of the notes qualify as Tier 2 capital for the Company under the regulatory capital rules of the federal banking agencies. The following table is a summary of our outstanding subordinated notes as of March 31, 2024:

(dollars in thousands)	Issuance Date	Amount of Notes	Prepayment Right	Maturity Date
Subordinated notes	August 2022	$ 75,000	August 17, 2027	September 1, 2032
Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.58% as of March 31, 2024) through maturity				

Shareholders' Equity

Shareholders' equity totaled $292.6 million at March 31, 2024 and $285.8 million at December 31, 2023. The increase in shareholders' equity was primarily attributable to net income recognized of $10.6 million, partially offset by: (i) $3.5 million in cash dividends; and (ii) a $0.7 million increase in accumulated other comprehensive loss during the three months ended March 31, 2024.

Liquidity and Capital Resources

Liquidity Management

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

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

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service requirements on its subordinated notes. 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, Federal Reserve Discount Window advances, 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 Federal Reserve Discount Window, and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from established federal funds lines from unaffiliated commercial banks, and the issuance of debt or equity securities. We believe we have ample liquidity resources to fund future growth and meet other cash needs as necessary.

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

Sources and Uses of Cash

Our executive officers and board of directors review our sources and potential uses of cash in connection with our annual budgeting process. Generally speaking, our principal funding source is cash from deposits, and our principal uses of cash include funding of loans, operating expenses, income taxes, and dividend payments, as described below. As of March 31, 2024, management believes the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs. In addition, in April 2024, the Company closed the 2024 Public Offering and sold an aggregate of 3,967,500 shares of its common stock at a public offering price of $21.75 per share. The proceeds to the Company, after deducting underwriting discounts and commissions but before deducting offering expenses payable by the Company, were approximately $81.5 million, providing additional cash to support the Company's ongoing operating needs.

Loans

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

During the three months ended March 31, 2024, we had cash outflows of $11.5 million in loan originations and advances, net of principal collected, and $15.5 million in loans originated for sale.

Additionally, we enter into commitments to extend credit in the ordinary course of business, such as commitments to fund new loans and undisbursed construction funds. While these commitments represent contractual cash requirements, a portion of these commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2024, off-balance sheet commitments totaled $453.5 million. We expect to fund these commitments to the extent utilized primarily through the repayment of existing loans, deposit growth, and liquid assets.

Deposits

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

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

During the three months ended March 31, 2024, we had cash outflows related to a decrease in deposits of $71.1 million, primarily as a result of decreases in wholesale funding.

During the twelve months following March 31, 2024, approximately $284.9 million of time deposits are expected to mature. These deposits may or may not renew due to general competition. 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 and our recent San Francisco Bay area expansion provide a stable funding base.

At March 31, 2024, cash and cash equivalents represented 6.27% of total deposits.

Investment Securities

Our investment securities totaled $108.0 million at March 31, 2024. Mortgage-backed securities and obligations of states and political subdivisions comprised 50.87% and 35.20% of our investment portfolio, respectively. Cash proceeds from mortgage-backed securities result from payments of principal and interest by borrowers. Cash proceeds from obligations of states and political subdivisions occur when these securities are called or mature. Assuming the current prepayment speed and interest rate environment, we expect to receive approximately $7.7 million from our securities over the twelve months following March 31, 2024. In future periods, we expect to maintain approximately the same level of cash flows from our securities. Depending on market yield and our liquidity, we may purchase securities as a use of cash in our interest-earning asset portfolio.

During the three months ended March 31, 2024, we had cash proceeds from sales, maturities, calls, and prepayments of securities of $2.0 million. Additionally, at March 31, 2024, securities available-for-sale totaled $105.0 million, of which $101.4 million has been pledged as collateral for borrowings and other commitments.

FHLB Financing

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At March 31, 2024, the Bank had outstanding borrowings of $20.0 million and a total financing availability of $411.4 million, net of letters of credit issued of $571.5 million.

Federal Reserve Discount Window

The Company has the ability to borrow from the Federal Reserve Discount Window when necessary. At March 31, 2024, the Bank had outstanding borrowings of $100.0 million and a total financing availability of $707.1 million.

Correspondent Bank Lines of Credit

At March 31, 2024, the unused and available amount for borrowing from correspondent bank lines of credit was $175.0 million.

Total Liquidity

Total liquidity (consisting of cash and cash equivalents and unused and immediately available borrowing capacity as set forth below) was approximately $1.5 billion as of March 31, 2024.

	March 31, 2024			
(dollars in thousands)	**Line of Credit**	**Letters of Credit Issued**	**Borrowings**	**Available**
FHLB advances	$ 1,002,910	$ 571,500	$ 20,000	$ 411,410
Federal Reserve Discount Window	807,143	—	100,000	707,143
Correspondent bank lines of credit	175,000	—	—	175,000
Cash and cash equivalents	—	—	—	185,325
Total	$ 1,985,053	$ 571,500	$ 120,000	$ 1,478,878

Future Contractual Obligations

Our estimated future contractual obligations as of March 31, 2024 include both current and long-term obligations. Under our operating leases, we have an operating lease liability of $7.3 million. We have a current obligation of $284.9 million and a long-term obligation of $3.2 million related to time deposits, as discussed in Note 5, Interest-Bearing Deposits. We have net subordinated notes of $73.8 million, all of which are long-term obligations. We also have contractual obligations on unfunded loan commitments and standby letters of credit totaling $453.5 million.

Dividends

The Company paid dividends to its shareholders totaling $3.5 million during the three months ended March 31, 2024.

We expect to continue our current practice of paying quarterly cash dividends with respect to our common stock, subject to our board of directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. We believe our quarterly dividend rate per share, as approved by our board of directors, enables us to balance our multiple objectives of managing our business and returning a portion of our earnings to our shareholders. Assuming continued payment during the rest of 2024 at a rate of $0.20 per share, our average total dividend paid each quarter would be approximately $4.3 million based on the number of currently outstanding shares if there are no increases or decreases in the number of shares, and given that unvested RSAs share equally in dividends with outstanding common stock.

Impact of Inflation

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

Historical Information

The following table summarizes our consolidated cash flow activities:

	Three months ended March 31,		
(dollars in thousands)	**2024**	**2023**	**$ Change**
Net cash provided by operating activities	$ 247	$ 694	$ (447)
Net cash used in investing activities	$ (11,923)	$ (68,559)	$ 56,636
Net cash (used in) provided by financing activities	$ (124,575)	$ 155,813	$ (280,388)

Operating Activities

Net cash provided by operating activities decreased by $0.4 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. Cash provided by operating activities is subject to variability period-over-period as a result of timing differences, including with respect to the collection of receivables and payments of interest expense, accounts payable, and bonuses.

Investing Activities

Net cash used in investing activities decreased by $56.6 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to decreased loan originations.

Financing Activities

Net cash (used in) provided by financing activities decreased by $280.4 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to a decline in deposits and lower borrowings.

Capital Adequacy

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

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

Historically, as a bank holding company with less than $3.0 billion in total consolidated assets and that met certain other criteria, we had been operating under the Small Bank Holding Company Policy Statement, which provides an exemption from the Federal Reserve's generally applicable risk-based capital ratio and leverage ratio requirements. Having passed this threshold as of September 30, 2022, we are no longer subject to this policy statement and our capital adequacy is evaluated relative to the Federal Reserve's generally applicable capital requirements. Additionally, as of June 30, 2023, the Company's consolidated assets were in excess of $3.0 billion, and as a consequence, beginning in March 2024, the Company no longer prepares and files financial reports with the Federal Reserve as a small bank holding company and is subject to capital ratio requirements for bank holding companies.

Under federal regulations implementing the Basel III framework, the Bank is subject to minimum risk-based and leverage capital requirements. The Bank also is subject to regulatory thresholds that must be met for an insured depository institution to be classified as "well-capitalized" under the prompt corrective action framework. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. Capital amounts for Bancorp and the Bank, and the Bank's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components of capital, risk weightings, and other factors. As of March 31, 2024, 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 required for it to be considered a well-capitalized bank holding company.

The capital adequacy ratios as of March 31, 2024 and December 31, 2023 for Bancorp and the Bank are presented in the following tables. As of March 31, 2024 and December 31, 2023, Bancorp's Tier 2 capital included subordinated notes, which were not included at the Bank level. Eligible amounts of subordinated notes included in Tier 2 capital will be phased out by 20% per year beginning five years before the maturity date of the notes.

Capital Ratios for Bancorp	**Actual Ratio**		**Required for Capital Adequacy Purposes**[1]		**Ratio to be Well-Capitalized under Prompt Corrective Action Provisions**	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2024						
Total capital (to risk-weighted assets)	$ 412,503	12.34 %	$ 264,002	8.00 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	$ 305,192	9.13 %	$ 200,544	6.00 %	N/A	N/A
Common equity tier 1 capital (to risk-weighted assets)	$ 305,192	9.13 %	$ 150,408	4.50 %	N/A	N/A
Tier 1 leverage	$ 305,192	8.63 %	$ 141,459	4.00 %	N/A	N/A
December 31, 2023						
Total capital (to risk-weighted assets)	$ 404,829	12.30 %	$ 259,090	8.00 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	$ 298,749	9.07 %	$ 197,534	6.00 %	N/A	N/A
Common equity tier 1 capital (to risk-weighted assets)	$ 298,749	9.07 %	$ 148,150	4.50 %	N/A	N/A
Tier 1 leverage	$ 298,749	8.73 %	$ 136,953	4.00 %	N/A	N/A

Capital Ratios for the Bank	**Actual Ratio**		**Required for Capital Adequacy Purposes**		**Ratio to be Well-Capitalized under Prompt Corrective Action Provisions**	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2024						
Total capital (to risk-weighted assets)	$ 398,228	11.94 %	$ 266,911	8.00 %	$ 333,639	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 364,702	10.93 %	$ 200,183	6.00 %	$ 266,911	8.00 %
Common equity tier 1 capital (to risk-weighted assets)	$ 364,702	10.93 %	$ 150,137	4.50 %	$ 216,865	6.50 %
Tier 1 leverage	$ 364,702	10.33 %	$ 141,236	4.00 %	$ 176,545	5.00 %
December 31, 2023						
Total capital (to risk-weighted assets)	$ 392,114	11.93 %	$ 262,947	8.00 %	$ 328,684	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 359,783	10.95 %	$ 197,211	6.00 %	$ 262,947	8.00 %
Common equity tier 1 capital (to risk-weighted assets)	$ 359,783	10.95 %	$ 147,908	4.50 %	$ 213,645	6.50 %
Tier 1 leverage	$ 359,783	10.52 %	$ 136,757	4.00 %	$ 170,946	5.00 %

[1] The listed capital adequacy ratios exclude capital conservation buffers.

Non-GAAP Financial Measures

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

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

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

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

Recent Legislative and Regulatory Developments

Bank Merger Review

On March 21, 2024, the FDIC published proposed revisions to its Statement of Policy on Bank Merger Transactions that may change the way the FDIC reviews bank merger applications. While the Federal Reserve has not issued a similar proposal, Federal Reserve Vice Chair for Supervision Michael Barr has stated that the Federal Reserve is working with the U.S. Department of Justice to update guidelines setting forth standards for the review of the competitive impact of a bank merger transaction. These pending regulatory revisions create uncertainty regarding the standards that the agencies may apply to their review of bank mergers and may make it more difficult and/or costly to obtain regulatory approval of a bank merger, or otherwise result in more burdensome conditions in approval orders than the agencies have previously imposed. Additionally, the agencies may begin to apply new standards in practice before they formally finalize changes to their merger policies. As a result, these new standards may limit banking organizations' ability to grow through an acquisition or make it more costly or less beneficial for them to do so.

Glossary of Acronyms, Abbreviations, and Terms

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

2023 Annual Report on Form 10-K	Company’s Annual Report on Form 10-K for the year ended December 31, 2023	GNMA	Government National Mortgage Association
ASC	Accounting Standards Codification	GSE	Government Sponsored Entity
ASU	Accounting Standards Update	ICS	Insured Cash Sweep®
Bancorp	Five Star Bancorp and its subsidiary	IPO	Initial Public Offering
Bank	Five Star Bank	LM	Loan modification made to borrower experiencing financial difficulty
Basel III	A capital framework and rules for U.S. banking organizations	EVE	Economic Value of Equity
BOLI	Bank-Owned Life Insurance	NI	Net Income
CDARS	Certificate of Deposit Account Registry Service®	NII	Net Interest Income
CME	Chicago Mercantile Exchange	OCI	Other Comprehensive Income
EPS	Earnings per Share	RSA	Restricted Stock Award
FASB	Financial Accounting Standards Board	ROAA	Return on Average Assets, annualized
FDIC	Federal Deposit Insurance Corporation	ROAE	Return on Average Equity, annualized
Federal Reserve	Board of Governors of the Federal Reserve System	ROUA	Right-of-Use Asset
FHLB	Federal Home Loan Bank of San Francisco	SBA	U.S. Small Business Administration
FHLMC	Federal Home Loan Mortgage Corporation	SEC	Securities and Exchange Commission
FNMA	Federal National Mortgage Association	SOFR	Secured Overnight Financing Rate
GAAP	Generally Accepted Accounting Principles in the U.S.		

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. As a financial institution, the Company experiences market risk arising primarily from interest rate risk inherent in lending and deposit-taking activities. Because the interest rates on the Company's assets and liabilities do not necessarily change at the same speed or rate as market interest rates, sudden and/or substantial changes in interest rates may adversely impact our earnings. In particular, the Company's financial results are sensitive to significant changes in the treasury yield curve, the Federal Funds rate, and the Wall Street Prime Index.

The Company's total interest income was $47.5 million for the three months ended March 31, 2024 and $174.4 million for the year ended December 31, 2023. As market interest rates that serve as reference indices for our variable rate loans and investment securities have continued to increase, our total interest income has grown. Our total interest expense was $20.8 million for the three months ended March 31, 2024 and $63.5 million for the year ended December 31, 2023. As rates paid on borrowed funds are correlated with short-term interest rates, the cost associated with our borrowings generally increases in a rising rate environment. Overall, our net interest income was $26.7 million for the three months ended March 31, 2024 and $110.9 million for the year ended December 31, 2023.

Economic value of equity ("EVE") measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time for a given set of market rate assumptions. An increase in EVE due to a specified rate change indicates an improvement in the long-term earnings capacity of the balance sheet, assuming that the rate change remains in effect over the life of the current balance sheet. As of March 31, 2024, the Company carried a slightly higher balance of liabilities than assets that will reprice in the event that interest rates fall. As such, we generally expect the Company to benefit from a declining rate environment.

Our policies and procedures provide management with guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. This is overseen and adjusted as needed by our Management Asset Liability Committee ("MALCO") on a monthly basis and our Director Asset Liability Committee ("ALCO") on a quarterly basis. We have historically managed our sensitivity position within our established guidelines. With the intent of stabilizing or increasing net interest income, management typically deploys the Company's excess liquidity and seeks to migrate certain earning assets into higher-yielding categories (from investment securities into loans, for example). However, in situations where deposit balances contract, management relies upon various borrowing facilities and/or the use of brokered deposits. The Company monitors the impact of interest rate risk on EVE by reviewing and managing assets and liabilities with varying interest rate risks, such as cash and time deposits. Assets and liabilities are subject to fluctuations at each measurement date based on the composition of the balance sheet at each measurement date. EVE results are compared to previous periods and established policies on a quarterly basis.

As of March 31, 2024, the overnight Federal Funds rate, the rate used in the interest rate shock scenarios listed below, was 5.33%. The scenarios presented assume that interest rates change instantaneously ("shock") and that there are no significant changes in the structure of the Company's balance sheet over the twelve months being measured.

The following table summarizes the estimated effect on net interest income and EVE from changing interest rates as measured against a flat rate (no interest rate change) instantaneous parallel shock scenario over a twelve month period utilizing an interest sensitivity (GAP) analysis based on the Company's specific mix of interest-earning assets and interest-bearing liabilities as of March 31, 2024 and December 31, 2023.

	March 31, 2024		**December 31, 2023**	
Change in Interest Rates *(in basis points)*	**Estimated Change in NII (as % of NII)**	**Estimated Change in EVE (as % of EVE)**	**Estimated Change in NII (as % of NII)**	**Estimated Change in EVE (as % of EVE)**
+300 (shock)	(14.62)%	(19.52)%	(13.73)%	(22.17)%
+200 (shock)	(9.64)%	(13.37)%	(9.02)%	(15.23)%
+100 (shock)	(4.79)%	(6.72)%	(4.63)%	(7.90)%
+ 0 (flat)	— %	— %	— %	— %
-100 (shock)	4.69 %	7.05 %	4.43 %	8.09 %
-200 (shock)	9.44 %	13.57 %	8.93 %	14.76 %
-300 (shock)	14.36 %	20.19 %	13.72 %	22.38 %

The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions, which are based upon our experience and published industry experience. Such assumptions may not necessarily reflect the manner or timing in which our interest-earning assets and interest-bearing liabilities respond to changes in market rates. Because these assumptions are inherently uncertain, actual results will differ from simulated results.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of March 31, 2024 of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2024 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 2023 Annual Report on Form 10-K, 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

During the three months ended March 31, 2024, none of our directors or executive officers adopted or terminated any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement".

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.

Exhibit Number	Exhibit Description	Incorporated by Reference				Herewith
		Form	File No.	Exhibit	Filing Date	
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 pursuant to 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

SIGNATURES

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

	Five Star Bancorp (registrant)
May 8, 2024	*/s/ James E. Beckwith*
Date	James E. Beckwith President & Chief Executive Officer (Principal Executive Officer)
May 8, 2024	*/s/ Heather C. Luck*
Date	Heather C. Luck Senior Vice President & Chief Financial Officer (Principal Financial Officer)

EXHIBIT 31.1

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

I, James E. Beckwith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Five Star Bancorp (the “Registrant”);

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

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

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

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

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

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

May 8, 2024	*/s/ James E. Beckwith*
Date	James E. Beckwith President & Chief Executive Officer

EXHIBIT 31.2

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

I, Heather C. Luck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Five Star Bancorp (the “Registrant”);

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

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

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

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

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

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

May 8, 2024	*/s/ Heather C. Luck*
Date	Heather C. Luck
	Senior Vice President & Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Five Star Bancorp (the "Company") for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Beckwith, President & Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

May 8, 2024	*/s/ James E. Beckwith*
Date	James E. Beckwith President & Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Five Star Bancorp (the “Company”) for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Heather C. Luck, Senior Vice President & Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

May 8, 2024	*/s/ Heather C. Luck*
Date	Heather C. Luck Senior Vice President & Chief Financial Officer