Table of Contents.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

☒ 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: **001-38589**

COASTAL FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Washington	**56-2392007**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5415 Evergreen Way, Everett, Washington	**98203**
(Address of principal executive offices)	(Zip Code)

(425) 257-9000
(Registrant's telephone number, including area code)

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, no par value per share	CCB	NASDAQ Global Select Market

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 13,419,491 shares of the issuer's common stock outstanding.

COASTAL FINANCIAL CORPORATION

Table of Contents

		Page No.
Part I. Financial Information		
Item 1.	Condensed Consolidated Financial Statements (unaudited)	4
	Condensed Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023 (unaudited)	4
	Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2024 and 2023 (unaudited)	5
	Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2024 and 2023 (unaudited)	7
	Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2024 and 2023 (unaudited)	8
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2024 and 2023 (unaudited)	9
	Notes to Condensed Consolidated Financial Statements (unaudited)	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	47
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	95
Item 4.	Controls and Procedures	97
Part II. Other Information		
Item 1.	Legal Proceedings	98
Item 1A.	Risk Factors	98
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	98
Item 3.	Defaults Upon Senior Securities	98
Item 4.	Mine Safety Disclosures	98
Item 5.	Other Information	98
Item 6.	Exhibits	98

Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. Any statements about our management's expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. All forward-looking statements, expressed or implied, included herewith are expressly qualified in their entirety by the cautionary statements contained or referred to herein. The inclusion of forward-looking information in this report should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

Factors that may affect our results are disclosed in "Item 1A. Risk Factors" in Part II of this report and in the section titled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023 ("Form 10-K"). Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed include, but are not limited to, the following: the difficult market conditions and unfavorable economic conditions and uncertainties in the markets in which we operate and in which our loans are concentrated, including declines in housing markets as a result of global macroeconomic and geopolitical events, an increase in unemployment levels and slowdowns in economic growth; our expected future financial results; our ability to successfully execute on our strategy for our CCBX segment, CCBX partnerships and our efforts to optimize and strengthen our CCBX balance sheet; the overall health of the local and national real estate market; the impacts related to or resulting from bank failures and other economic and industry volatility, including potential increased regulatory requirements and costs and potential impacts to macroeconomic conditions; the credit risk associated with our loan portfolio, our level of nonperforming assets and the costs associated with resolving problem loans; business and economic conditions generally and in the financial services industry, nationally and within our market area, particularly in the markets in which we operate and in which our loans are concentrated; the impact on the Company's operations due to epidemic illnesses, natural or man-made disasters, such as earthquakes, tsunamis, wildfires and flooding, the effects of regional or national civil unrest, wars and acts of terrorism, and political developments that may disrupt or increase volatility in securities or otherwise affect economic conditions; our ability to maintain an adequate level of allowance for credit losses; our ability to successfully manage liquidity risk; our ability to implement our growth strategy and manage costs effectively; the composition of our senior leadership team and our ability to attract and retain key personnel; our ability to raise additional capital to implement our business plan; changes in market interest rates and impacts of such changes on our profits and business; the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents; interruptions involving our information technology and telecommunications systems or third-party servicers; our ability to maintain our reputation; increased competition in the financial services industry; regulatory guidance on commercial lending concentrations; our relationship with broker-dealers and digital financial service providers; the effectiveness of our risk management framework; the costs and obligations associated with being a publicly traded company and other unanticipated costs that we may experience; the commencement and outcome of litigation and other legal proceedings and regulatory actions against us or to which we may become subject; the extensive regulatory framework that applies to us; the impact of recent and future legislative and regulatory changes and economic stimulus programs; and other changes in banking, securities and tax laws and regulations, and their application by our regulators; the impact on our operations due to epidemic illnesses, natural or man-made disasters, such as wildfires, the effects of regional or national civil unrest, and political developments that may disrupt or increase volatility in securities or otherwise affect economic conditions; fluctuations in the value of the securities held in our securities portfolio; governmental monetary and fiscal policies; material weaknesses in our internal control over financial reporting; and our success at managing the risks involved in the foregoing items.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. You are cautioned not to place undue reliance on forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as required by law.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands)

	March 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	$ 32,790	$ 31,345
Interest earning deposits with other banks (restricted cash of $0 at March 31, 2024 and December 31, 2023)	482,338	451,783
Investment securities, available for sale, at fair value	41	99,504
Investment securities, held to maturity, at amortized cost	50,049	50,860
Other investments	10,583	10,227
Loans held for sale	797	—
Loans receivable	3,199,554	3,026,092
Allowance for credit losses	(139,258)	(116,958)
Total loans receivable, net	3,060,296	2,909,134
CCBX credit enhancement asset	137,276	107,921
CCBX receivable	10,369	9,088
Premises and equipment, net	22,995	22,090
Operating lease right-of-use assets	5,756	5,932
Accrued interest receivable	24,681	26,819
Bank-owned life insurance, net	12,991	12,870
Deferred tax asset, net	2,221	3,806
Other assets	12,075	11,987
Total assets	$ 3,865,258	$ 3,753,366
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 3,462,979	$ 3,360,363
Subordinated debt, net		
Principal amount $45,000 (less unamortized debt issuance costs of $819 and $856) at March 31, 2024 and December 31, 2023, respectively	44,181	44,144
Junior subordinated debentures, net		
Principal amount $3,609 (less unamortized debt issuance costs of $19 at March 31, 2024 and December 31, 2023)	3,590	3,590
Deferred compensation	442	479
Accrued interest payable	1,061	892
Operating lease liabilities	5,946	6,124
CCBX payable	33,095	33,651
Other liabilities	10,255	9,145
Total liabilities	3,561,549	3,458,388
SHAREHOLDERS' EQUITY		
Preferred stock, no par value:		
Authorized: 25,000,000 shares at March 31, 2024 and December 31, 2023; issued and outstanding: zero shares at March 31, 2024 and December 31, 2023	—	—
Common stock, no par value:		
Authorized: 300,000,000 shares at March 31, 2024 and December 31, 2023; 13,407,320 shares at March 31, 2024 issued and outstanding and 13,304,339 shares at December 31, 2023 issued and outstanding	131,601	130,136
Retained earnings	172,110	165,311
Accumulated other comprehensive loss, net of tax	(2)	(469)
Total shareholders' equity	303,709	294,978
Total liabilities and shareholders' equity	$ 3,865,258	$ 3,753,366

See accompanying Notes to Condensed Consolidated Financial Statements.

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(dollars in thousands, except for per share data)

	Three Months Ended March 31,	
	2024	2023
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 84,621	$ 66,431
Interest on interest earning deposits with other banks	4,780	3,097
Interest on investment securities	1,034	553
Dividends on other investments	37	30
Total interest income	90,472	70,111
INTEREST EXPENSE		
Interest on deposits	28,867	14,958
Interest on borrowed funds	669	662
Total interest expense	29,536	15,620
Net interest income	60,936	54,491
PROVISION FOR CREDIT LOSSES	83,158	43,697
Net interest income/(expense) after provision for credit losses	(22,222)	10,794
NONINTEREST INCOME		
Deposit service charges and fees	908	910
Loan referral fees	168	—
Gain on sales of loans, net	—	123
Unrealized gain (loss) on equity securities, net	15	39
Other income	308	299
Noninterest income, excluding BaaS program income and BaaS indemnification income	1,399	1,371
Servicing and other BaaS fees	1,131	948
Transaction fees	1,122	917
Interchange fees	1,539	789
Reimbursement of expenses	1,033	921
BaaS program income	4,825	3,575
BaaS credit enhancements	79,808	42,362
BaaS fraud enhancements	923	1,999
BaaS indemnification income	80,731	44,361
Total noninterest income	86,955	49,307
NONINTEREST EXPENSE		
Salaries and employee benefits	17,984	15,575
Occupancy	1,518	1,219
Data processing and software licenses	2,892	1,840
Legal and professional expenses	3,672	3,062
Point of sale expense	869	753
Excise taxes	320	455
Federal Deposit Insurance Corporation ("FDIC") assessments	683	595
Director and staff expenses	400	626
Marketing	53	95
Other expense	1,867	890
Noninterest expense, excluding BaaS loan and BaaS fraud expense	30,258	25,110
BaaS loan expense	24,837	17,554
BaaS fraud expense	923	1,999
BaaS loan and fraud expense	25,760	19,553
Total noninterest expense	56,018	44,663
Income before provision for income taxes	8,715	15,438
PROVISION FOR INCOME TAXES	1,915	3,047
NET INCOME	$ 6,800	$ 12,391

Basic earnings per common share	$ 0.51	$ 0.94
Diluted earnings per common share	$ 0.50	$ 0.91
Weighted average number of common shares outstanding:		
Basic	13,340,997	13,196,960
Diluted	13,676,917	13,609,491

See accompanying Notes to Condensed Consolidated Financial Statements.

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands)

	Three Months Ended March 31,	
	2024	2023
NET INCOME	$ 6,800	$ 12,391
OTHER COMPREHENSIVE INCOME (LOSS), before tax		
Securities available-for-sale		
Unrealized holding income (loss) during the period	534	678
Income tax (expense) benefit related to unrealized holding gain/loss	(68)	(151)
OTHER COMPREHENSIVE INCOME (LOSS), net of tax	466	527
COMPREHENSIVE INCOME	$ 7,266	$ 12,918

See accompanying Notes to Condensed Consolidated Financial Statements.

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(dollars in thousands)

	Shares of Common Stock	Amount of Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2022	13,161,147	$ 125,830	$ 119,998	$ (2,334)	$ 243,494
Net income	—	—	12,391	—	12,391
Adjustment to retained earnings; adoption of ASU 2016- 13	—0	—	734	—	734
Vesting of restricted stock units	42,402	—	—	—	—
Exercise of stock options	77,984	567	—	—	567
Stock-based compensation	—	1,050	—	—	1,050
Other comprehensive loss, net of tax	—	—	—	527	527
BALANCE, March 31, 2023	13,281,533	$ 127,447	$ 133,123	$ (1,807)	$ 258,763
BALANCE, December 31, 2023	13,304,339	$ 130,136	$ 165,310	$ (468)	$ 294,978
Net income	—	—	6,800	—	6,800
Vesting of restricted stock units	57,841	—	—	—	—
Exercise of stock options	45,140	285	—	—	285
Stock-based compensation	—	1,180	—	—	1,180
Other comprehensive income, net of tax	—	—	—	466	466
BALANCE, March 31, 2024	13,407,320	$ 131,601	$ 172,110	$ (2)	$ 303,709

See accompanying Notes to Condensed Consolidated Financial Statements.

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Three Months Ended March 31,	
	2024	**2023**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,800	$ 12,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	83,158	43,697
Depreciation and amortization	882	466
Increase in operating lease right-of-use assets	196	206
Increase in operating lease liabilities	(198)	(212)
Gain on sales of loans	—	(123)
Net amortization (accretion) on investment securities	5	(6)
Unrealized holding (gain) loss on equity investment	(15)	(39)
Stock-based compensation	1,180	1,050
Increase in bank-owned life insurance value	(121)	(94)
Deferred tax benefit (expense)	1,517	(2,439)
Net change in CCBX receivable	(1,281)	(3,265)
Net change in CCBX credit enhancement asset	(29,355)	(18,553)
Net change in CCBX payable	(556)	10,375
Net change in other assets and liabilities	(312)	3,177
Total adjustments	55,100	34,240
Net cash provided by operating activities	61,900	46,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in other investments, net	(341)	(2,679)
Principal paydowns of investment securities available-for-sale	1	(752)
Principal paydowns of investment securities held-to-maturity	802	2
Maturities and calls of investment securities available-for-sale	100,000	9
Proceeds from sales of loans held for sale	100,492	74,050
Purchase of loans	(20,705)	(47,886)
Increase in loans receivable, net	(311,264)	(295,583)
Purchases of premises and equipment, net	(1,786)	(284)
Net cash used by investing activities	(132,801)	(273,123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, money market, and savings	105,860	280,089
Net decrease in time deposits	(3,244)	(2,387)
Proceeds from exercise of stock options	285	567
Net cash provided by financing activities	102,901	278,269
NET CHANGE IN CASH, DUE FROM BANKS AND RESTRICTED CASH	32,000	51,777
CASH, DUE FROM BANKS AND RESTRICTED CASH, beginning of year	483,128	342,139
CASH, DUE FROM BANKS AND RESTRICTED CASH, end of quarter	$ 515,128	$ 393,916
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES		
Interest paid	$ 29,367	$ 15,430
Income taxes paid	98	165
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Fair value adjustment of securities available-for-sale, gross	$ 534	$ 678
Operating lease right-of-use assets	$ 20	$ 69
Operating lease liabilities	$ (20)	$ (69)
Non-cash investing and financing activities:		
Transfer from loans to loans held for sale	$ 101,289	$ 101,219
Adjustment to retained earnings - adoption of ASU 2016-13, net of deferred tax	$ —	$ (734)

See accompanying Notes to Condensed Consolidated Financial Statements.

COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Description of Business and Summary of Significant Accounting Policies

Nature of operations - Coastal Financial Corporation ("Corporation" or "Company") is a registered bank holding company whose wholly owned subsidiaries are Coastal Community Bank ("Bank") and Arlington Olympic LLC ("LLC"). The Company is a Washington state corporation that was organized in 2003. The Bank was incorporated and commenced operations in 1997 and is a Washington state-chartered commercial bank that is a member bank of the Federal Reserve system. Arlington Olympic LLC was formed in 2019 and owns the Company's Arlington branch site, which the Bank leases from the LLC.

The Company operates through the Bank and is headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. The Company's business is conducted through three reportable segments: The community bank, CCBX and treasury & administration. The community bank offers a full range of banking services to small and medium-sized businesses, professionals, and individuals throughout the greater Puget Sound region through its 14 branches in Snohomish, Island and King Counties, the Internet, and its mobile banking application. The CCBX segment provides Banking as a Service ("BaaS") that allows our broker dealers and digital financial service partners to offer their customers banking services. Through CCBX's partners the Company is able to offer banking services and products across the nation. The treasury & administration segment includes treasury management, overall administration and all other aspects of the Company.

The Bank's deposits are insured in whole or in part by the Federal Deposit Insurance Corporation ("FDIC"). The community bank's loans and deposits are primarily within the greater Puget Sound region, while CCBX loans and deposits are dependent upon the partner's market. The Bank's primary funding source is deposits from customers. The Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has regulatory and supervisory authority over the Company.

Financial statement presentation - The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim reporting requirements and with instructions to Form 10-Q and Article 10 of Regulation S-X, and therefore do not include all the information and notes included in the annual consolidated financial statements in conformity with GAAP. These interim condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes included in the Company's Annual report on Form 10-K as filed with the U.S. Securities and Exchange Commission ("SEC") on March 15, 2024. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the entire year.

Amounts presented in the consolidated financial statements and footnote tables are rounded and presented in thousands of dollars except per-share amounts, which are presented in dollars. In the narrative footnote discussion, amounts are rounded to thousands and presented in dollars.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying consolidated financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation.

Principles of consolidation - The consolidated financial statements include the accounts of the Company, the Bank and the LLC. All significant intercompany accounts have been eliminated in consolidation.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that its critical accounting policies include determining the allowance for credit losses, the valuation of the Company's deferred tax assets, and fair value of financial instruments. Actual results could differ significantly from those estimates.

Subsequent Events - The Company has evaluated events and transactions subsequent to March 31, 2024 for potential recognition or disclosure.

Reclassifications - Certain amounts reported in prior quarters' consolidated financial statements may have been reclassified to conform to the current presentation with no effect on stockholders' equity or net income.

Note 2 - Recent accounting standards

Recent Accounting Guidance

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures,* to provide financial statement users with more disaggregated expense information about a public entity's reportable segments. The ASU addresses the concern that more segment information is needed, including allowing the disclosure of multiple measures of segment profit or loss, requiring the disclosure of significant segment expenses, and requiring the qualitative disclosure of other segment items.This ASU is effective for all entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.We are currently evaluating the impact of this ASU on our reporting.

Note 3 - Investment Securities

The following table summarizes the amortized cost, fair value, and allowance for credit losses and the corresponding amounts of gross unrealized gains and losses of available-for-sale securities recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses of held-to-maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
	(dollars in thousands; unaudited)				
March 31, 2024					
Available-for-sale					
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —
U.S. Agency collateralized mortgage obligations	44	—	(3)	41	—
Municipal bonds	—	—	—	—	—
Total available-for-sale securities	44	—	(3)	41	—
Held-to-maturity					
U.S. Agency residential mortgage-backed securities	50,049	223	(522)	49,750	—
Total investment securities	$ 50,093	$ 223	$ (525)	$ 49,791	$ —

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
	(dollars in thousands; unaudited)				
December 31, 2023					
Available-for-sale					
U.S. Treasury securities	$ 99,996	$ —	$ (535)	$ 99,461	$ —
U.S. Agency collateralized mortgage obligations	45	—	(2)	43	—
Total available-for-sale securities	100,041	—	(537)	99,504	—
Held-to-maturity					
U.S. Agency residential mortgage-backed securities	50,860	467	(286)	51,041	—
Total investment securities	$ 150,901	$ 467	$ (823)	$ 150,545	$ —

Accrued interest on available-for-sale securities was less than $1,000 and $187,000 at March 31, 2024 and December 31, 2023, respectively, accrued interest on held-to-maturity securities was $230,000 and $14,000 at March 31, 2024 and December 31, 2023, respectively. Accrued interest on securities is excluded from the balances in the preceding table of securities receivable, and is included in accrued interest receivable on the Company's consolidated balance sheets.

The amortized cost and fair value of debt securities at March 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers or the underlying borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are shown separately, since they are not due at a single maturity date.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands; unaudited)			
March 31, 2024				
Amounts maturing in				
One year or less	$ —	$ —	$ —	$ —
	—	—	—	—
U.S. Agency residential mortgage-backed securities and collateralized mortgage obligations	44	41	50,049	49,750
	$ 44	$ 41	$ 50,049	$ 49,750

Investments in debt securities with an amortized cost of $21.5 million at March 31, 2024 and $21.8 million as of December 31, 2023, were pledged to secure public deposits and for other purposes as required or permitted by law and an additional $24.5 million and $25.0 million in securities were pledged for borrowing lines at March 31, 2024 and December 31, 2023, respectively.

During the three months ended March 31, 2024, two securities matured. During the three months ended March 31, 2024, no securities were purchased.

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

There were thirteen securities with a $525,000 unrealized loss as of March 31, 2024. There were nine securities in an unrealized loss position as of December 31, 2023. The following table shows the investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position for which an allowance for credit losses has not been recorded:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in thousands; unaudited)					
March 31, 2024						
Available-for-sale						
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
U.S. Agency collateralized mortgage obligations	—	—	41	3	41	3
Total available-for-sale securities	—	—	41	3	41	3
Held-to-maturity						
U.S. Agency residential mortgage-backed securities	19,713	70	11,718	452	31,431	522
Total investment securities	$ 19,713	$ 70	$ 11,759	$ 455	$ 31,472	$ 525

Management has evaluated the above securities and does not believe that any individual unrealized loss as of March 31, 2024, will be recognized into income. Unrealized losses have not been recognized into income because management does not intend to sell and does not expect it will be required to sell the investments. The decline is largely due to changes in market conditions and interest rates, rather than credit quality. The fair value is expected to recover as the underlying securities in the portfolio approach maturity date and market conditions improve. Management believes there is a high probability of collecting all contractual amounts due, because the majority of the securities in the portfolio are backed by government agencies or government sponsored enterprises. However, a recovery in value may not occur for some time, if at all, and may be delayed for greater than the one year time horizon or perhaps even until maturity. Based on management's analysis no allowance for credit losses was required on these securities.

Note 4 - Loans and Allowance for Credit Losses

During the quarter ended March 31, 2024, $101.3 million in CCBX loans were transferred to loans held for sale, with $100.5 million in loans sold. The Company sells CCBX loans to manage loan portfolio size by partner and by loan category, with such limits established and documented in the relevant partner agreement. As of March 31, 2024 there were $797,000 loans held for sale and no loans were held for sale as of December 31, 2023.

The composition of the loan portfolio is as follows as of the periods indicated:

	March 31, 2024	December 31, 2023
	(dollars in thousands; unaudited)	
Community Bank		
Commercial and industrial loans	$ 154,395	$ 149,502
Real estate loans:		
Construction, land and land development loans	160,862	157,100
Residential real estate loans	231,157	225,391
Commercial real estate loans	1,342,489	1,303,533
Consumer and other loans:		
Other consumer and other loans	1,447	1,628
Gross Community Bank loans receivable	1,890,350	1,837,154
CCBX		
Commercial and industrial loans:		
Capital call lines	$ 135,671	$ 87,494
All other commercial & industrial loans	47,160	54,298
Real estate loans:		
Residential real estate loans	265,148	238,035
Consumer and other loans:		
Credit cards	505,706	505,837
Other consumer and other loans	362,981	310,574
Gross CCBX loans receivable	1,316,666	1,196,238
Total gross loans receivable	3,207,016	3,033,392
Net deferred origination fees and premiums	(7,462)	(7,300)
Loans receivable	$ 3,199,554	$ 3,026,092

Accrued interest on loans, which is excluded from the balances in the preceding table of loans receivable, was $23.7 million and $25.6 million at March 31, 2024 and December 31, 2023, respectively, and was included in accrued interest receivable on the Company's consolidated balance sheets.

Included in commercial and industrial loans as of March 31, 2024 and December 31, 2023, is $135.7 million and $87.5 million, respectively in capital call lines, provided to venture capital firms through one of our BaaS clients. These loans are secured by the capital call rights and are individually underwritten to the Bank's credit standards by our BaaS client and the underwriting is reviewed by the Bank on every line/loan. Also included in commercial and industrial loans are Paycheck Protection Program ("PPP") loans of $2.9 million at March 31, 2024 and $3.0 million at December 31, 2023. PPP loans are 100% guaranteed by the Small Business Administration ("SBA").

Consumer and other loans includes overdrafts of $1.3 million and $2.8 million at March 31, 2024 and December 31, 2023, respectively. Community bank overdrafts were $17,000 and $255,000 at March 31, 2024 and December 31, 2023, respectively and CCBX overdrafts were $1.3 million and $2.5 million at March 31, 2024 and December 31, 2023.

The Company has pledged loans totaling $985.6 million at March 31, 2024 and $1.01 billion at December 31, 2023, for borrowing lines at the FHLB and FRB. Additional loans were pledged during the first six months of 2023 and continues to be pledged to increase and maintain the borrowing capacity of the Bank in the event of a liquidity crisis.

The balance of SBA and United States Department of Agriculture ("USDA") loans and participations sold and serviced for others totaled $7.4 million and $8.7 million at March 31, 2024 and December 31, 2023, respectively.

The gross balance of Main Street Lending Program ("MSLP") loans participated and serviced for others, totaled $53.4 million at March 31, 2024 and December 31, 2023, with $2.8 million in MSLP loans on the balance sheet and included in commercial and industrial loans at March 31, 2024 and December 31, 2023. Servicing is retained on the gross balance.

The Company, through the community bank, at times purchases individual loans at fair value as of the acquisition date. The Company held purchased loans with remaining balances that totaled $8.1 million as of March 31, 2024 and December 31, 2023. Unamortized premiums on these loans totaled $152,000 and $154,000 as of March 31, 2024 and December 31, 2023, respectively, and are amortized into interest income over the life of the loans.

The Company, through the community bank, has purchased participation loans with remaining balances totaling $51.3 million and $53.5 million as of March 31, 2024 and December 31, 2023, respectively. These loans are included in the applicable loan category depending upon the collateral and purpose of the individual loan and underwritten to the Bank's credit standards.

The Company, through the community bank, purchased loans from CCBX partners, at par, through agreements with those CCBX partners, and those loans had a remaining balance of $56.0 million as of March 31, 2024 and $46.5 million as of December 31, 2023. As of March 31, 2024, $50.7 million is included in consumer and other loans and $5.3 million is included in commercial and industrial loans, compared to $40.2 million in consumer and other loans and $6.3 million in commercial and industrial loans as of December 31, 2023.

The following is a summary of the Company's loan portfolio segments:

Commercial and industrial loans – Commercial and industrial loans are secured by business assets including inventory, receivables and machinery and equipment of businesses located generally in the Company's primary market area and capital calls on venture and investment funds. Also included in commercial and industrial loans are $47.2 million in unsecured CCBX partner loans. Loan types include revolving lines of credit, term loans, PPP loans, and loans secured by liquid collateral such as cash deposits or marketable securities. Also included in commercial and industrial loans are loans to other financial institutions. Additionally, the Company issues letters of credit on behalf of its customers. Risk arises primarily due to the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recovery of the Company's investment is dependent upon the borrower's ability to collect amounts due from its customers.

As of March 31, 2024, $135.7 million in outstanding CCBX capital call lines are included in commercial and industrial loans compared to $87.5 million at December 31, 2023. Capital call lines are provided to venture capital firms. These loans are secured by the capital call rights and are individually underwritten to the Bank's credit standards by our CCBX partner and the underwriting is reviewed by the Bank on every line/loan.

Construction, land and land development loans – The Company originates loans for the construction of 1-4 family, multifamily, and Commercial Real Estate ("CRE") properties in the Company's market area. Construction loans are considered to have higher risks due to construction completion and timing risk, the ultimate repayment being sensitive to interest rate changes, government regulation of real property and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans, as adverse economic conditions may negatively impact the real estate market, which could affect the borrower's ability to complete and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. The Company occasionally originates land loans for the purpose of facilitating the ultimate construction of a home or commercial building. The primary risks include the borrower's ability to pay and the inability of the Company to recover its investment due to a material decline in the fair value of the underlying collateral.

Residential real estate loans – Residential real estate includes various types of loans for which the Company holds real property as collateral. Included in this segment are first and second lien single family loans, occasionally purchased by the Company to diversify its loan portfolio, and rental portfolios secured by one-to-four family homes. The primary risks of residential real estate loans include the borrower's inability to pay, material decreases in the value of the collateral, and significant increases in interest rates which may make the loan unprofitable.

As of March 31, 2024, $265.1 million in loans originated through CCBX partners are included in residential real estate loans, compared to $238.0 million at December 31, 2023. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card. Home equity lines of credit are classified as residential real estate per regulatory guidelines.

Commercial real estate (includes owner occupied and nonowner occupied) loans – Commercial real estate loans include various types of loans for which the Company holds real property as collateral. We have commercial mortgage loans totaling $386.7 million that are collateralized by owner-occupied real-estate and $575.6 million that are collateralized by non-owner-occupied real estate, as well as $369.4 million of multi-family residential loans and $10.9 million of farmland loans, as of March 31, 2024. The primary risks of commercial real estate loans include the borrower's inability to pay, material decreases in the value of the collateralized real estate and significant increases in interest rates, which may make the real estate loan unprofitable. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

Consumer and other loans – The community bank originates a limited number of consumer loans, generally for banking customers only, which consist primarily of lines of credit, saving account secured loans, and auto loans. CCBX originates consumer loans including credit cards, consumer term loans and secured and unsecured lines of credit. This loan category includes overdrafts. Repayment of these loans is dependent on the borrower's ability to pay and the fair value of the underlying collateral, if any.

As of March 31, 2024, $868.7 million in CCBX loans are included in consumer and other loans compared to $816.4 million at December 31, 2023. Not included in this category is $265.1 million and $238.0 million as of March 31, 2024 and December 31, 2023, respectively, in home equity lines of credit that are secured by residential real estate and are accessed by using a credit card. These credit card accessed home equity lines of credit are classified as residential real estate per regulatory guidelines.

Past Due and Nonaccrual Loans

The following table illustrates an age analysis of past due loans as of the dates indicated:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Still Accruing
			(dollars in thousands; unaudited)			
March 31, 2024						
Community Bank						
Commercial and industrial loans	$ —	$ 1,445	$ 1,445	$ 152,950	$ 154,395	$ 1,445
Real estate loans:						
Construction, land and land development	—	—	—	160,862	160,862	—
Residential real estate	1,086	44	1,130	230,027	231,157	—
Commercial real estate	—	7,731	7,731	1,334,758	1,342,489	—
Consumer and other loans	3	—	3	1,444	1,447	—
Total community bank	$ 1,089	$ 9,220	$ 10,309	$ 1,880,041	$ 1,890,350	$ 1,445
CCBX						
Commercial and industrial loans:						
Capital call lines	$ —	$ —	$ —	$ 135,671	$ 135,671	$ —
All other commercial & industrial loans	3,069	1,793	4,862	42,298	47,160	1,793
Real estate loans:						
Residential real estate loans	3,079	1,796	4,875	$ 260,273	$ 265,148	1,796
Consumer and other loans:						
Credit cards	27,983	37,603	65,586	$ 440,120	$ 505,706	37,603
Other consumer and other loans	23,400	5,731	29,131	333,850	362,981	5,731
Total CCBX	$ 57,531	$ 46,923	$ 104,454	$ 1,212,212	$ 1,316,666	$ 46,923
Total Consolidated	$ 58,620	$ 56,143	$ 114,763	$ 3,092,253	3,207,016	$ 48,368
Less net deferred origination fees and premiums					(7,462)	
Loans receivable					$ 3,199,554	

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Still Accruing
			(dollars in thousands; unaudited)			
December 31, 2023						
Community Bank						
Commercial and industrial loans	$ —	$ —	$ —	$ 149,502	$ 149,502	$ —
Real estate loans:						
Construction, land and land development	—	—	—	157,100	157,100	—
Residential real estate	44	—	44	225,347	225,391	—
Commercial real estate	—	7,145	7,145	1,296,388	1,303,533	—
Consumer and other loans	2	—	2	1,626	1,628	—
Total community bank	$ 46	$ 7,145	$ 7,191	$ 1,829,963	$ 1,837,154	$ —
CCBX						
Commercial and industrial loans:						
Capital call lines	$ —	$ —	$ —	$ 87,494	$ 87,494	$ —
All other commercial & industrial loans	3,433	2,086	5,519	48,779	54,298	2,086
Real estate loans:						
Residential real estate loans	3,198	1,115	4,313	$ 233,722	$ 238,035	$ 1,115
Consumer and other loans:						
Credit cards	28,383	34,835	63,218	$ 442,619	$ 505,837	$ 34,835
Other consumer and other loans	29,645	8,488	38,133	$ 272,441	$ 310,574	$ 8,488
Total CCBX	64,659	46,524	111,183	1,085,055	1,196,238	46,524
Total Consolidated	64,705	53,669	118,374	2,915,018	3,033,392	46,524
Less net deferred origination fees and premiums					(7,300)	
Loans receivable					$ 3,026,092	

There were $48.4 million in loans past due 90 days or more and still accruing interest as of March 31, 2024, and $46.5 million as of December 31, 2023. This is attributed to loans originated through CCBX lending partners which continue to accrue interest up to 180 days past due. As of March 31, 2024 and December 31, 2023, $44.3 million of loans past due 90 days or more are covered by credit enhancements provided by our CCBX partners that protect the Bank against losses.

The accrual of interest on community bank loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when they are 90 days past due as to either principal or interest, unless they are well secured and in the process of collection. Installment/closed-end, and revolving/open-end consumer loans originated through CCBX lending partners will continue to accrue interest until 120 and 180 days past due, respectively and an allowance is recorded through provision expense for these expected losses. For installment/closed-end and revolving/open-end consumer loans originated through CCBX lending partners with balances outstanding beyond 120 days and 180 days past due, respectively, principal and capitalized interest outstanding is charged off against the allowance and accrued interest outstanding is reversed against interest income. These consumer loans are reported as nonperforming/substandard, 90 days or more days past due and still accruing.

When loans are placed on nonaccrual status, all accrued interest is reversed from current period earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further

loss is removed, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

An analysis of nonaccrual loans by category consisted of the following at the periods indicated:

	March 31, 2024			December 31, 2023	
	Total Nonaccrual	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Nonaccrual with No ACL
	(dollars in thousands; unaudited)				
Community Bank					
Commercial and industrial loans	$ —	$ —	$ —	$ —	$ —
Real estate loans:					
Construction, land and land development	—	—	—	—	—
Residential real estate	212	212	—	170	170
Commercial real estate	7,731	830	6,901	7,145	7,145
Consumer and other loans	—	—	—	—	—
Total nonaccrual loans	$ 7,943	$ 1,042	$ 6,901	$ 7,315	$ 7,315

In some circumstances, the Company modifies loans in response to borrower financial difficulty, and generally provides for a temporary modification of loan repayment terms. In order for a modified loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow for an extended period of time, usually at least six months in duration.

No loans were modified for community bank borrowers experiencing financial difficulty in the three months ended March 31, 2024 and 2023.

The following table presents the CCBX loans at March 31, 2024 that were both experiencing financial difficulty and were modified during the twelve months prior to March 31, 2024 by class and by type of modification. The percentage of the loans that were modified to borrowers in financial distress as compared to the total of each class of loans is also presented below.

	Term Extension	Interest Rate Reduction	Principal Forgiveness & Payment Delay	Principal Forgiveness, Payment Delay & Term Extension	Total	Total Class of Financing Receivable
	(dollars in thousands; unaudited)					
CCBX						
Commercial and industrial loans:						
All other commercial & industrial loans	$ 1,314	$ —	$ 260	$ 47	$ 1,621	3.44 %
Consumer and other loans:						
Credit cards	—	7,063	—	—	7,063	1.40
Other consumer and other loans	10,055	—	7,463	5,041	22,559	6.21
Total	$ 11,369	$ 7,063	$ 7,723	$ 5,088	$ 31,243	0.98 %

The Company has committed to lend additional amounts totaling $589,000 to the borrowers included in the table above.

The performance of loans modified is monitored to understand the effectiveness of the modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
	(dollars in thousands; unaudited)		
CCBX			
Commercial and industrial loans:			
All other commercial & industrial loans	$ 242	$ 97	$ 339
Consumer and other loans:			
Credit cards	1,512	2,069	3,581
Other consumer and other loans	2,283	711	2,994
Total CCBX	$ 4,037	$ 2,877	$ 6,914

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the preceding 12 months ended March 31, 2024:

	Principal Forgiveness	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (years)
	(dollars in thousands; unaudited)		
CCBX			
Commercial and industrial loans:			
All other commercial & industrial loans	$ —	— %	0.95
Real estate loans:			
Residential real estate loans	42	—	n/a
Consumer and other loans:			
Credit cards	—	18.0	n/a
Other consumer and other loans	—	—	0.97
Total CCBX	$ 42	18.0 %	0.97

The following table presents the total of loans that had a payment default during the preceding 12 months ended March 31, 2024 and which were modified for borrowers experiencing financial difficulty in the twelve months prior to that default.

	Term Extension	Interest Rate Reduction	Principal Forgiveness & Payment Delay	Principal Forgiveness, Payment Delay & Term Extension	Total
	(dollars in thousands; unaudited)				
CCBX					
Commercial and industrial loans:					
All other commercial & industrial loans	$ 777	$ —	$ 189	$ 11	$ 977
Consumer and other loans:					
Credit cards	—	5,291	—	—	5,291
Other consumer and other loans	5,579	—	4,210	3,057	12,846
Total	$ 6,356	$ 5,291	$ 4,399	$ 3,068	$ 19,114

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is charged-off against the allowance for credit losses. Therefore, the loan balance is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Credit Quality and Credit Risk

Federal regulations require that the Company periodically evaluate the risks inherent in its loan portfolio. In addition, the Company's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. The Company establishes loan grades for loans at the origination of the loan. Changes to community bank loan grades are considered at the time new information about the performance of a loan becomes available, including the receipt of updated financial information from the borrower and after loan reviews. For consumer loans, the Bank follows the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy for subsequent classification in the event of payment delinquencies or default. Typically, an individual loan grade will not be changed from the prior period unless there is a specific indication of credit deterioration or improvement. Credit deterioration is evidenced by delinquency, direct communications with the borrower or other borrower information that becomes known to management. Credit improvements are evidenced by known facts regarding the borrower or the collateral property. The Company classifies some loans as Watch or Other Loans Especially Mentioned ("OLEM"). Loans classified as Watch are performing assets but have elements of risk that require more monitoring than other performing loans and are reported in the OLEM column in the following table. Loans classified as OLEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring. There are three classifications for problem loans: Substandard, Doubtful, and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Revolving (open-ended loans, such as credit cards) and installment (closed end) consumer loans originated through CCBX partners continue to accrue interest until they are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards) and are classified as substandard. Doubtful loans have the weaknesses of loans classified as Substandard, with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions, and values. There is a high possibility of loss in loans classified as Doubtful. A loan classified as Loss is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as Loss, it must be charged-off, meaning the amount of the loss is charged against the allowance for credit losses, thereby reducing that reserve.

Management considers the guidance in ASC 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination.

The following tables show the risk category of community bank loans by year of origination for the periods indicated, based on the most recent analysis performed as of each period end:

	Term Loans Amortized Cost Basis by Origination Year								
Community Bank	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted To Term**	**Total**
					(dollars in thousands; unaudited)				
As of March 31, 2024									
Commercial and industrial loans									
Risk rating									
Pass	$ 5,867	$ 14,062	$ 55,194	$ 14,970	$ 9,580	$ 13,338	$ 36,764	$ 856	$ 150,631
Other Loan Especially Mentioned	—	—	—	—	105	—	3,659	—	3,764
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial and industrial loans - All other commercial and industrial loans	$ 5,867	$ 14,062	$ 55,194	$ 14,970	$ 9,685	$ 13,338	$ 40,423	$ 856	$ 154,395
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate loans - Construction, land and land development loans									
Risk rating									
Pass	$ 2,537	$ 99,547	$ 39,591	$ 14,757	$ 772	$ 2,239	$ 360	$ —	$ 159,803
Other Loan Especially Mentioned	—	—	—	459	—	—	600	—	1,059
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Construction, land and land development loans	$ 2,537	$ 99,547	$ 39,591	$ 15,216	$ 772	$ 2,239	$ 960	$ —	$ 160,862
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Community Bank	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2024	2023	2022	2021	2020	Prior			
	(dollars in thousands; unaudited)								
As of March 31, 2024									
Real estate loans - Residential real estate loans									
Risk rating									
Pass	$ 6,802	$ 32,483	$ 41,545	$ 38,889	$ 29,091	$ 53,905	$ 24,795	$ 17	$ 227,527
Other Loan Especially Mentioned	—	—	1,094	2,013	22	39	250	—	3,418
Substandard	—	—	—	—	—	—	44	168	212
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Residential real estate loans	6,802	32,483	42,639	40,902	29,113	53,944	25,089	185	231,157
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate loans - Commercial real estate loans									
Risk rating									
Pass	$ 56,325	$ 241,523	$ 301,683	$ 223,012	$ 140,329	$ 348,428	$ 8,138	$ 1,704	$ 1,321,142
Other Loan Especially Mentioned	—	—	3,239	5,733	168	4,306	170	—	13,616
Substandard	—	—	—	—	830	6,901	—	—	7,731
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Commercial real estate loans	$ 56,325	$ 241,523	$ 304,922	$ 228,745	$ 141,327	$ 359,635	$ 8,308	$ 1,704	$ 1,342,489
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Community Bank	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2024	2023	2022	2021	2020	Prior			
	(dollars in thousands; unaudited)								
As of March 31, 2024									
Consumer and other loans - Other consumer and other loans									
Risk rating									
Pass	$ 93	$ 64	$ 239	$ 5	$ 670	$ 185	$ 191	$ —	$ 1,447
Other Loan Especially Mentioned	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total consumer and other loans - Other consumer and other loans	$ 93	$ 64	$ 239	$ 5	$ 670	$ 185	$ 191	$ —	$ 1,447
Current period gross charge-offs	$ 15	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 15
Total community bank loans receivable									
Risk rating									
Pass	$ 71,624	$ 387,679	$ 438,252	$ 291,633	$ 180,442	$ 418,095	$ 70,248	$ 2,577	$ 1,860,550
Other Loan Especially Mentioned	—	—	4,333	8,205	295	4,345	4,679	—	21,857
Substandard	—	—	—	—	830	6,901	44	168	7,943
Doubtful	—	—	—	—	—	—	—	—	—
Total community bank loans	$ 71,624	$ 387,679	$ 442,585	$ 299,838	$ 181,567	$ 429,341	$ 74,971	$ 2,745	$ 1,890,350
Current period gross charge-offs	$ 15	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 15

Community Bank	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2023	2022	2021	2020	2019	Prior			
	(dollars in thousands; unaudited)								
As of December 31, 2023									
Commercial and industrial loans									
Risk rating									
Pass	$ 15,882	$ 56,428	$ 15,566	$ 10,044	$ 12,429	$ 1,442	$ 33,412	$ 1,020	$ 146,223
Other Loan Especially Mentioned	—	—	—	111	—	—	3,168	—	3,279
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial and industrial loans - All other commercial and industrial loans	$ 15,882	$ 56,428	$ 15,566	$ 10,155	$ 12,429	$ 1,442	$ 36,580	$ 1,020	$ 149,502
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 46	$ —	$ —	$ 46
Real estate loans - Construction, land and land development loans									
Risk rating									
Pass	$ 75,129	$ 49,275	$ 20,811	$ 2,859	$ 914	$ 1,598	$ —	$ —	$ 150,586
Other Loan Especially Mentioned	—	—	3,589	2,325	—	—	—	—	5,914
Substandard	—	—	—	—	—	—	600	—	600
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Construction, land and land development loans	$ 75,129	$ 49,275	$ 24,400	$ 5,184	$ 914	$ 1,598	$ 600	$ —	$ 157,100
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Community Bank	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2023	2022	2021	2020	2019	Prior			
	(dollars in thousands; unaudited)								
As of December 31, 2023									
Real estate loans - Residential real estate loans									
Risk rating									
Pass	$ 32,352	$ 41,362	$ 39,137	$ 30,259	$ 31,982	$ 22,429	$ 24,396	$ 18	$ 221,935
Other Loan Especially Mentioned	—	1,098	2,020	28	—	40	100	—	3,286
Substandard	—	—	—	—	—	—	—	170	170
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Residential real estate loans	$ 32,352	$ 42,460	$ 41,157	$ 30,287	$ 31,982	$ 22,469	$ 24,496	$ 188	$ 225,391
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate loans - Commercial real estate loans									
Risk rating									
Pass	$ 244,169	$ 303,329	$ 222,287	$ 144,602	$ 126,437	$ 233,482	$ 7,509	$ 1,719	$ 1,283,534
Other Loan Especially Mentioned	—	3,257	5,891	171	506	2,099	100	—	12,024
Substandard	—	—	—	924	6,900	—	151	—	7,975
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate loans - Commercial real estate loans	$ 244,169	$ 306,586	$ 228,178	$ 145,697	$ 133,843	$ 235,581	$ 7,760	$ 1,719	$ 1,303,533
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Community Bank	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2023	2022	2021	2020	2019	Prior			
	(dollars in thousands; unaudited)								
As of December 31, 2023									
Consumer and other loans - Other consumer and other loans									
Risk rating									
Pass	$ 323	$ 272	$ 5	$ 679	$ 38	$ 164	$ 147	$ —	$ 1,628
Other Loan Especially Mentioned	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total consumer and other loans - Other consumer and other loans	$ 323	$ 272	$ 5	$ 679	$ 38	$ 164	$ 147	$ —	$ 1,628
Current period gross charge-offs	$ 18	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 18
Total community bank loans receivable									
Risk rating									
Pass	$ 367,855	$ 450,666	$ 297,806	$ 188,443	$ 171,800	$ 259,115	$ 65,464	$ 2,757	$ 1,803,906
Other Loan Especially Mentioned	—	4,355	11,500	2,635	506	2,139	3,368	—	24,503
Substandard	—	—	—	924	6,900	—	751	170	8,745
Doubtful	—	—	—	—	—	—	—	—	—
Total community bank loans	$ 367,855	$ 455,021	$ 309,306	$ 192,002	$ 179,206	$ 261,254	$ 69,583	$ 2,927	$ 1,837,154
Current period gross charge-offs	$ 18	$ —	$ —	$ —	$ —	$ 46	$ —	$ —	$ 64

The Company considers the performance of the CCBX loan portfolio and its impact on the allowance for credit losses. For CCBX loans, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following tables present the loans in CCBX based on payment activity for the periods indicated:

	Term Loans Amortized Cost Basis by Origination Year							
CCBX	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted To Term**	**Total**
					(dollars in thousands; unaudited)				
As of March 31, 2024									
Commercial and industrial loans - Capital call lines									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 135,671	$ —	$ 135,671
Nonperforming	—	—	—	—	—	—	—	—	—
Total commercial and industrial loans - Capital call lines	$ —	$ —	$ —	$ —	$ —	$ —	$ 135,671	$ —	$ 135,671
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial loans - All other commercial and industrial loans									
Payment performance									
Performing	$ —	$ 36,254	$ 5,867	$ 9	$ 10	$ —	$ 3,227	$ —	$ 45,367
Nonperforming	—	1,185	162	—	—	—	446	—	1,793
Total commercial and industrial loans - All other commercial and industrial loans	$ —	$ 37,439	$ 6,029	$ 9	$ 10	$ —	$ 3,673	$ —	$ 47,160
Current period gross charge-offs	$ 46	$ 3,770	$ 683	$ —	$ —	$ —	$ 198	$ —	$ 4,697
Real estate loans - Residential real estate loans									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 242,333	$ 21,019	$ 263,352
Nonperforming	—	—	—	—	—	—	1,796	—	1,796
Total real estate loans - Residential real estate loans	$ —	$ —	$ —	$ —	$ —	$ —	$ 244,129	$ 21,019	$ 265,148
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,143	$ —	$ 1,143

CCBX	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2024	2023	2022	2021	2020	Prior			
	(dollars in thousands; unaudited)								
As of March 31, 2024									
Consumer and other loans - Credit cards									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 468,038	$ 65	$ 468,103
Nonperforming	—	—	—	—	—	—	37,603	—	37,603
Total consumer and other loans - Credit cards	$ —	$ —	$ —	$ —	$ —	$ —	$ 505,641	$ 65	$ 505,706
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 31,705	$ —	$ 31,705
Consumer and other loans - Other consumer and other loans									
Payment performance									
Performing	$ 111,255	$ 178,701	$ 40,740	$ 5,149	$ 91	$ 574	$ 20,740	$ —	$ 357,250
Nonperforming	—	3,062	1,545	421	—	23	680	—	5,731
Total consumer and other loans - Other consumer and other loans	$ 111,255	$ 181,763	$ 42,285	$ 5,570	$ 91	$ 597	$ 21,420	$ —	$ 362,981
Current period gross charge-offs	$ 485	$ 11,542	$ 6,296	$ 1,594	$ 2	$ 71	$ 1,444	$ —	$ 21,434
Total CCBX loans receivable									
Payment performance									
Performing	$ 111,255	$ 214,955	$ 46,607	$ 5,158	$ 101	$ 574	$ 870,009	$ 21,084	$ 1,269,743
Nonperforming	—	4,247	1,707	421	—	23	40,525	—	46,923
Total CCBX loans	$ 111,255	$ 219,202	$ 48,314	$ 5,579	$ 101	$ 597	$ 910,534	$ 21,084	$ 1,316,666
Current period gross charge-offs	$ 531	$ 15,312	$ 6,979	$ 1,594	$ 2	$ 71	$ 34,490	$ —	$ 58,979

CCBX	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2023	2022	2021	2020	2019	Prior			
	(dollars in thousands; unaudited)								
As of December 31, 2023									
Commercial and industrial loans - Capital call lines									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 87,494	$ —	$ 87,494
Nonperforming	—	—	—	—	—	—	—	—	—
Total commercial and industrial loans - Capital call lines	$ —	$ —	$ —	$ —	$ —	$ —	$ 87,494	$ —	$ 87,494
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial loans - All other commercial and industrial loans									
Payment performance									
Performing	$ 42,267	$ 6,835	$ 9	$ 11	$ —	$ —	$ 3,090	$ —	$ 52,212
Nonperforming	1,333	277	—	—	—	—	476	—	2,086
Total commercial and industrial loans - All other commercial and industrial loans	$ 43,600	$ 7,112	$ 9	$ 11	$ —	$ —	$ 3,566	$ —	$ 54,298
Current period gross charge-offs	$ 3,848	$ 2,502	$ 15	$ 16	$ —	$ —	$ 224	$ —	$ 6,605
Real estate loans - Residential real estate loans									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 212,435	$ 24,485	$ 236,920
Nonperforming	—	—	—	—	—	—	1,115	—	1,115
Total real estate loans - Residential real estate loans	$ —	$ —	$ —	$ —	$ —	$ —	$ 213,550	$ 24,485	$ 238,035
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 4,641	$ —	$ 4,641

CCBX	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2023	2022	2021	2020	2019	Prior			
	(dollars in thousands; unaudited)								
As of December 31, 2023									
Consumer and other loans - Credit cards									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 469,049	$ 1,953	$ 471,002
Nonperforming	—	—	—	—	—	—	33,655	1,180	34,835
Total consumer and other loans - Credit cards	$ —	$ —	$ —	$ —	$ —	$ —	$ 502,704	$ 3,133	$ 505,837
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 61,358	$ —	$ 61,358
Consumer and other loans - Other consumer and other loans									
Payment performance									
Performing	$ 216,024	$ 50,732	$ 6,888	$ 98	$ 418	$ 317	$ 27,609	$ —	$ 302,086
Nonperforming	4,229	3,074	477	—	7	10	691	—	8,488
Total consumer and other loans - Other consumer and other loans	$ 220,253	$ 53,806	$ 7,365	$ 98	$ 425	$ 327	$ 28,300	$ —	$ 310,574
Current period gross charge-offs	$ 17,815	$ 43,115	$ 11,574	$ 84	$ 346	$ 217	$ 6,178	$ —	$ 79,329
Total CCBX loans receivable									
Payment performance									
Performing	$ 258,291	$ 57,567	$ 6,897	$ 109	$ 418	$ 317	$ 799,677	$ 26,438	$ 1,149,714
Nonperforming	5,562	3,351	477	—	7	10	35,937	1,180	46,524
Total CCBX loans	$ 263,853	$ 60,918	$ 7,374	$ 109	$ 425	$ 327	$ 835,614	$ 27,618	$ 1,196,238
Current period gross charge-offs	$ 21,663	$ 45,617	$ 11,589	$ 100	$ 346	$ 217	$ 72,401	$ —	$ 151,933

Allowance for Credit Losses ("ACL")

CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for credit losses. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by reimbursing most losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for CCBX credit losses and provision for unfunded commitments are recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements). Expected losses are recorded in the allowance for credit losses. The credit enhancement asset is reduced when credit enhancement payments are received from the CCBX partner or taken from the partner's cash reserve account. CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by reimbursing the Bank for the losses. If the partner is unable to fulfill their contracted obligations then the Bank could be exposed to the loss of the reimbursement and credit enhancement income. In accordance with the program agreement for one CCBX partner, the Company was responsible for credit losses on approximately 10% of a $317.8 million, or $32.0 million in loans that are without credit enhancement reimbursements as of March 31, 2024. Effective April 1, 2024, the agreement was modified and the Company is now responsible for 5% of the credit losses on this $317.8 million loan portfolio, or $16.0 million in loans. The allowance as of March 31, 2024 was calculated using the 5% balance as Coastal's expected future losses are only on the 5% balance based on the updated, signed, agreement as of March 31st.

The following tables summarize the allocation of the ACL, as well as the activity in the ACL attributed to various segments in the loan portfolio, as of and for the three months ended March 31, 2024 and for the three months ended March 31, 2023:

	Commercial and Industrial	Construction, Land, and Land Development	Residential Real Estate	Commercial Real Estate	Consumer and Other	Unallocated	Total
	(dollars in thousands; unaudited)						
Three Months Ended March 31, 2024							
ACL balance, December 31, 2023	$ 8,877	$ 6,386	$ 13,049	$ 7,441	$ 81,205	$ —	$ 116,958
Provision for credit losses or (recapture)	6,411	165	2,742	62	70,138	—	79,518
	15,288	6,551	15,791	7,503	151,343	—	196,476
Loans charged-off	(4,697)	—	(1,143)	—	(53,154)	—	(58,994)
Recoveries of loans previously charged-off	199	—	2	—	1,575	—	1,776
Net charge-offs	(4,498)	—	(1,141)	—	(51,579)	—	(57,218)
ACL balance, March 31, 2024	$ 10,790	$ 6,551	$ 14,650	$ 7,503	$ 99,764	$ —	$ 139,258
Three Months Ended March 31, 2023							
ACL balance, December 31, 2022	$ 4,831	$ 7,425	$ 4,142	$ 5,470	$ 50,996	$ 1,165	$ 74,029
Impact of adopting CECL (ASC 326)	1,428	(1,589)	1,623	1,240	2,315	(1,165)	3,852
Provision for credit losses or (recapture)	3,165	(92)	1,958	796	37,717	—	43,544
	9,424	5,744	7,723	7,506	91,028	—	121,425
Loans charged-off	(776)	—	(737)	—	(32,654)	—	(34,167)
Recoveries of loans previously charged-off	3	—	—	—	1,862	—	1,865
Net (charge-offs) recoveries	(773)	—	(737)	—	(30,792)	—	(32,302)
ACL Balance, March 31, 2023	$ 8,651	$ 5,744	$ 6,986	$ 7,506	$ 60,236	$ —	$ 89,123

The following table presents the collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of the dates indicated:

	Real Estate	Total	ACL
	(dollars in thousands; unaudited)		
March 31, 2024			
Real estate loans:			
Residential real estate	$ 212	$ 212	$ —
Commercial real estate	7,731	7,731	1,096
Total	$ 7,943	$ 7,943	$ 1,096

	Real Estate	Total	ACL
	(dollars in thousands; unaudited)		
December 31, 2023			
Real estate loans:			
Residential real estate	$ 170	$ 170	$ —
Commercial real estate	7,145	7,145	—
Total	$ 7,315	$ 7,315	$ —

Note 5 - Deposits

The composition of consolidated deposits consisted of the following at the periods indicated:

	March 31, 2024	December 31, 2023
	(dollars in thousands; unaudited)	
Demand, noninterest bearing	$ 574,112	$ 625,202
Interest bearing demand and money market	2,799,667	2,640,240
Savings	74,085	76,562
Total core deposits	3,447,864	3,342,004
Brokered deposits	1	1
Time deposits less than $250,000	11,837	13,917
Time deposits $250,000 and over	3,277	4,441
Total deposits	$ 3,462,979	$ 3,360,363

The following table presents the maturity distribution of time deposits as of March 31, 2024:

(dollars in thousands; unaudited)	As of March 31, 2024
Twelve months	$ 10,721
One to two years	2,825
Two to three years	705
Three to four years	625
Four to five years	238
Thereafter	—
	$ 15,114

Included in total deposits is $336.8 million in IntraFi network reciprocal interest bearing demand and money market sweep accounts as of March 31, 2024, which provides our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions.

Note 6 - Leases

The Company has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception.

Operating lease right-of-use ("ROU") assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments arising from the lease. An operating lease ROU asset and operating lease liability will be recognized for any new operating leases at the commencement of the new lease.

The Company's leases do not provide an implicit interest rate, therefore the Company used its incremental collateralized borrowing rates commensurate with the underlying lease terms to determine the present value of operating lease liabilities. The weighted average discount rate as of March 31, 2024 was 3.88%.

The Company's operating lease agreements contain both lease and non-lease components, which are generally accounted for separately. The Company's lease agreements do not contain any residual value guarantees.

Operating leases with terms of 12 months or less are not included in ROU assets and operating lease liabilities recorded in the Company's consolidated balance sheet. Operating lease terms include options to extend when it is reasonably certain that the Company will exercise such options, determined on a lease-by-lease basis. At March 31, 2024, lease expiration dates ranged from 8 months to 20.9 years, with additional renewal options on certain leases typically ranging from 1 to 10 years. At March 31, 2024, the weighted average remaining lease term inclusive of renewal options that the Company is reasonably certain to renew for the Company's operating leases was 9.3 years.

Rental expense for operating leases is recognized on a straight-line basis over the lease term and amounted to $299,000 for the three months ended March 31, 2024, and $358,000 for the three months ended March 31, 2023. Variable lease components, such as inflation adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

The following table presents the minimum annual lease payments under the terms of these leases, inclusive of renewal options that the Company is reasonably certain to renew, at March 31, 2024:

(dollars in thousands; unaudited)	**March 31, 2024**
April 1 to December 31, 2024	$ 775
2026	977
2027	977
2028	913
2029	692
2029 and thereafter	2,763
Total lease payments	7,097
Less: amounts representing interest	1,151
Present value of lease liabilities	$ 5,946

The following table presents the components of total lease expense and operating cash flows for the three months ended March 31, 2024 and 2023:

	Three Months Ended	
	March 31, 2024	March 31, 2023
	(dollars in thousands; unaudited)	
Lease expense:		
Operating lease expense	$ 255	$ 321
Variable lease expense	67	52
Total lease expense (1)	$ 322	$ 373
Cash paid:		
Cash paid reducing operating lease liabilities	$ 325	$ 379

(1) Included in net occupancy expense in the Condensed Consolidated Statements of Income (unaudited).

Note 7 - Stock-Based Compensation

Stock Options and Restricted Stock

The 2018 Coastal Financial Corporation Omnibus Plan (the "2018 Plan") authorizes the Company to grant awards, including but not limited to, stock options, restricted stock units, and restricted stock awards, to eligible employees, directors or individuals that provide service to the Company, up to an aggregate of 500,000 shares of common stock. On May 24, 2021, the Company's shareholders approved the First Amendment to the 2018 Plan, which increased the authorized plan shares by 600,000. The 2018 Plan replaced the 2006 Plan for new awards. Existing awards will vest under the terms granted and no further awards will be granted under these prior plans. Shares available to be granted under the 2018 plan were 366,465 at March 31, 2024.

Stock Option Awards

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company uses the vesting term and contractual life to determine the expected life. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation expense related to unvested stock option awards is reversed at date of forfeiture.

There were no new stock options granted in the three months ended March 31, 2024 and 2023.

A summary of stock option activity under the 2018 Plan and 2006 Plan during the three months ended March 31, 2024:

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(dollars in thousands, except per share amounts; unaudited)			
Outstanding at December 31, 2023	354,969	$ 9.11	3.3	$ 12,531
Granted	—	—		
Exercised	(45,140)	7.98		$ 1,394
Expired	—	—		
Forfeited	(760)	10.02		
Outstanding at March 31, 2024	309,069	$ 9.27	3.2	$ 9,148
Vested or expected to vest at March 31, 2024	309,069	$ 9.27	3.2	$ 9,148
Exercisable at March 31, 2024	182,611	$ 8.92	2.9	$ 5,469

The total or aggregate intrinsic value (which is the amount by which the stock price exceeds the exercise price) of options exercised during the three months ended March 31, 2024 was $1.4 million. The total or aggregate intrinsic value of options exercised during the three months ended March 31, 2023 was $2.3 million.

As of March 31, 2024, there was $686,000 of total unrecognized compensation cost related to nonvested stock options granted under the 2018 Plan and 2006 Plan. Total unrecognized compensation costs are adjusted for unvested forfeitures. The Company expects to recognize that cost over a remaining weighted-average period of approximately 3.2 years. Compensation expense recorded related to stock options was $114,000 for the three months ended March 31, 2024 and $140,000 for the three months ended March 31, 2023.

Restricted Stock Units

In the first quarter of 2024, the Company granted 76,473 restricted stock units ("RSUs") under the 2018 Plan to employees, which vest ratably over 4 years and 3,174 RSUs to employees which vest ratably over 5 years.

RSUs provide for an interest in Company common stock to the recipient, the underlying stock is not issued until certain conditions are met. Vesting requirements include time-based, performance-based, or market-based conditions. Recipients of RSUs do not pay any cash consideration to the Company for the units and the holders of the restricted units do not have voting rights. The fair value of time-based and performance-based units is equal to the fair market value of the Company's common stock on the grant date. The fair value of market-based units is estimated on the grant date using the Monte Carlo simulation model. Compensation expense is recognized over the vesting period that the awards are based. RSUs are nonparticipating securities.

As of March 31, 2024, there was $10.9 million of total unrecognized compensation cost related to nonvested RSUs. The Company expects to recognize that cost over the remaining weighted-average vesting period of approximately 4.7 years. Compensation expense recorded related to RSUs was $945,000 for the three months ended March 31, 2024 and $812,000 for the three months ended March 31, 2023.

A summary of the Company's nonvested RSUs at March 31, 2024 and changes during the three month period is presented below:

Nonvested shares - RSUs	Number of Shares	Weighted-Average Grant Date Fair Value
	(dollars in thousands, except per share amounts; unaudited)	
Nonvested shares at December 31, 2023	409,271	$ 31.22
Granted	79,647	$ 38.06
Forfeited or expired	(12,168)	$ 36.40
Vested	(57,841)	$ 33.36
Nonvested shares at March 31, 2024	418,909	$ 32.07

Restricted Stock Awards

Employees

There were no new restricted stock awards granted in the three months ended March 31, 2024. The fair value of restricted stock awards is equal to the fair value of the Company's stock at the date of grant. Compensation expense is recognized over the vesting period that the awards are based. Restricted stock awards are participating securities.

As of March 31, 2024, there was $34,000 of total unrecognized compensation cost related to nonvested restricted stock awards. The Company expects to recognize that cost over the remaining weighted-average vesting period of approximately 3.8 years. Compensation expense recorded related to restricted stock awards was $2,000 for the three months ended March 31, 2024 and March 31, 2023.

Director's Stock Compensation

Under the 2018 Plan, eligible directors are granted stock with a total market value of approximately $45,000, and the Board Chair is granted stock with a total market value of approximately $75,000. Committee chairs receive additional stock in an amount that varies depending upon the nature and frequency of the committee meetings. The audit committee chair receives additional stock with a market value of approximately $10,000, non-financial risk and compensation committee chairs receive additional stock with a market value of approximately $7,500, and all other committee chairs receive additional stock with a market value of approximately $5,000. Stock is granted as of each annual meeting date and vest one day prior to the next annual meeting date. During the vesting period, the grants are considered participating securities.

As of March 31, 2024, there was $76,000 of total unrecognized compensation expense related to director restricted stock awards which the Company expects to recognize over the remaining average vesting period of approximately 0.2 years. Director compensation expense recorded related to the 2018 Plan totaled $118,000 for the three months ended March 31, 2024 and $96,000 for the three months ended March 31, 2023.

A summary of the Company's nonvested shares at March 31, 2024 and changes during the three-month period is presented below:

Nonvested shares - RSAs	Number of Shares	Weighted-Average Grant Date Fair Value
	(dollars in thousands, except per share amounts; unaudited)	
Nonvested shares at December 31, 2023	16,038	$ 32.41
Granted	—	$ —
Forfeited	—	$ —
Vested	(500)	$ 17.81
Nonvested shares at March 31, 2024	15,538	$ 32.88

Note 8 - Fair Value Measurements

The following tables present estimated fair values of the Company's financial instruments as of the period indicated, whether or not recognized or recorded in the consolidated balance sheets at the period indicated:

	March 31, 2024		Fair Value Measurements Using		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
	(dollars in thousands; unaudited)				
Financial assets					
Cash and due from banks	$ 32,790	$ 32,790	$ 32,790	$ —	$ —
Interest earning deposits with other banks	482,338	482,338	482,338	—	—
Investment securities	50,090	49,791	—	49,791	—
Other investments	10,583	10,583	—	7,961	2,622
Loans receivable	3,199,554	3,102,679	—	—	3,102,679
Accrued interest receivable	24,681	24,681	—	24,681	—
Financial liabilities					
Deposits	$ 3,462,979	3,462,458	$ —	$ 3,462,458	$ —
Subordinated debt	44,181	43,572	—	43,572	—
Junior subordinated debentures	3,590	3,498	—	3,498	—
Accrued interest payable	1,061	1,061	—	1,061	—

	December 31, 2023		Fair Value Measurements Using		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
	(dollars in thousands; unaudited)				
Financial assets					
Cash and due from banks	$ 31,345	$ 31,345	$ 31,345	$ —	$ —
Interest earning deposits with other banks	451,783	451,783	451,783	—	—
Investment securities	150,364	150,545	99,461	51,084	—
Other investments	10,227	10,227	—	7,605	2,622
Loans receivable, net	3,026,092	2,936,917	—	—	2,936,917
Accrued interest receivable	26,819	26,819	—	26,819	—
Financial liabilities					
Deposits	$ 3,360,363	$ 3,359,867	$ —	$ 3,359,867	$ —
Subordinated debt	44,144	43,908	—	43,908	—
Junior subordinated debentures	3,590	3,491	—	3,491	—
Accrued interest payable	892	892	—	892	—

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, not a forced liquidation or distressed sale). GAAP establishes a consistent framework for measuring fair value and disclosure requirements about fair value measurements. Among other things, the accounting standard requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical instruments. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2 – Observable inputs other than Level 1 including quoted prices in active markets for similar instruments, quoted prices in less active markets for identical or similar instruments, or other observable inputs that can be corroborated by observable market data.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs from nonbinding single dealer quotes not corroborated by observable market data.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize at a future date. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for certain financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Items measured at fair value on a recurring basis – The following fair value hierarchy table presents information about the Company's assets that are measured at fair value on a recurring basis at the dates indicated:

	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in thousands; unaudited)			
March 31, 2024				
Available-for-sale				
U.S. Treasury securities	$ —	$ —	$ —	$ —
U.S. Agency collateralized mortgage obligations	—	41	—	41
Municipals	—	—	—	—
	$ —	$ 41	$ —	$ 41
December 31, 2023				
Available-for-sale				
U.S. Treasury securities	$ 99,461	$ —	$ —	$ 99,461
U.S. Agency collateralized mortgage obligations	—	43	—	43
U.S. Agency residential mortgage-backed securities	—	—	—	—
Municipals	—	—	—	—
	$ 99,461	$ 43	$ —	$ 99,504

The following methods were used to estimate the fair value of the class of financial instruments above:

Investment securities **-** The fair value of securities is based on quoted market prices, pricing models, quoted prices of similar securities, independent pricing sources, and discounted cash flows.

Limitations: The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2024 and December 31, 2023. The factors used in the fair values estimates are subject to change subsequent to the dates the fair value estimates are completed, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Items measured at fair value on a nonrecurring basis – The following table presents financial assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at the dates indicated:

	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in thousands; unaudited)			
March 31, 2024				
Collateral dependent loans	$ —	$ —	$ 6,847	$ 6,847
Equity securities	$ —	$ —	$ 2,622	$ 2,622
Total	$ —	$ —	$ 9,469	$ 9,469
December 31, 2023				
Collateral dependent loans	$ —	$ —	$ 7,315	$ 7,315
Equity securities	—	—	2,622	2,622
Total	$ —	$ —	$ 9,937	$ 9,937

The amounts disclosed above represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported on.

Individually evaluated loans - Fair values for individually evaluated loans are estimated using the fair value of the collateral less selling costs if the loan results in a Level 3 classification. Individually evaluated loan amounts are initially valued at the lower of cost or fair value. Individually evaluated loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent real estate loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Individually evaluated loans are evaluated on a quarterly basis for additional credit losses and adjusted accordingly. The estimated fair values of financial instruments disclosed above follow the guidance in ASU 2016-01 which prescribes an "exit price" approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity, and marketability factors. Valuation is measured based on the fair value of the underlying collateral or the discounted cash expected future cash flows. Subsequent changes in the value of loans are included within the provision for credit losses - loans in the same manner in which it initially was recognized or as a reduction in the provision that would otherwise be reported. Loans are evaluated quarterly to determine if valuation adjustments should be recorded. The need for valuation adjustments arises when observable market prices or current appraised values of collateral indicate a shortfall in collateral value compared to current carrying values of the related loan. If the Company determines that the value of the individually evaluated loan is less than the carrying value of the loan, the Company either establishes an reserve as a specific component of the allowance for credit losses or charges off that amount. These valuation adjustments are considered nonrecurring fair value adjustments.

Equity securities – The Company measures equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer, with price changes recognized in earnings.

Assets measured at fair value using significant unobservable inputs (Level 3)

The following table presents the carrying value of equity securities without readily determinable fair values, as of March 31, 2024, with adjustments recorded during the periods presented for those securities with observable price changes, if applicable. These equity securities are included in other investments on the balance sheet.

- As of March 31, 2024 and December 31, 2023, we had a $2.2 million equity interest in a specialized bank technology company.
- We had a $350,000 equity interest in a technology company as of March 31, 2024 and December 31, 2023.
- We had a $50,000 equity interest in an additional technology company as of March 31, 2024 and December 31, 2023.

	For the Three Months Ended March 31,	
(dollars in thousands; unaudited)	**2024**	**2023**
Carrying value, beginning of period	$ 2,622	$ 2,572
Purchases	—	—
Observable price change	—	—
Carrying value, end of period	$ 2,622	$ 2,572

The following table provides a description of the valuation technique, unobservable inputs, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a nonrecurring basis at the date indicated:

(unaudited)	Valuation Technique	Unobservable Inputs	March 31, 2024 Weighted Average Rate	December 31, 2023 Weighted Average Rate
Collateral dependent loans	Collateral valuations	Discount to appraised value	8.1%	8.0%

Note 9 - Earnings Per Common Share

The following is a computation of basic and diluted earnings per common share at the periods indicated:

	Three Months Ended	
	March 31, 2024	March 31, 2023
	(dollars in thousands, except earnings per share data; unaudited)	
Net Income	$ 6,800	$ 12,391
Basic weighted average number common shares outstanding	13,340,997	13,196,960
Dilutive effect of equity-based awards	335,920	412,531
Diluted weighted average number common shares outstanding	13,676,917	13,609,491
Basic earnings per share	$ 0.51	$ 0.94
Diluted earnings per share	$ 0.50	$ 0.91
Antidilutive stock options and restricted stock outstanding	153,659	124,714

Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings, however the difference in the two-class method was not significant.

Note 10 – Segment Reporting

As defined in ASC 280, *Segment Reporting*, an operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on an internal performance measurement accounting system, which provides line of business results. This system uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income and expense. A primary objective of this measurement system and related internal financial reporting practices are to produce consistent results that reflect the underlying financial impact of the segments on the Company and to provide a basis of support for strategic decision making. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Based on these criteria, we have identified three segments: the community bank, CCBX, and treasury & administration. The community bank segment includes all community banking activities, with a primary focus of the community bank is on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has 21 partners as of March 31, 2024. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments.

The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. The Company continues to evaluate its methodology on allocating items to the Company's various segments to support strategic business decisions by the Company's executive leadership. Income and expenses that are specific to a segment are directly posted to each segment. Additionally, certain indirect expenses are allocated to each segment utilizing various metrics, such as number of employees, utilization of space, and allocations based on loan and deposit balances. We have implemented a transfer pricing process that credits or charges the community bank and CCBX segments with intrabank interest income or expense for the difference in average loans and average deposits, with the treasury & administration segment as the offset for those entries.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the consolidated financial results is shown in the following tables for the periods indicated:

	March 31, 2024				December 31, 2023			
	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank	CCBX	Treasury & Administration	Consolidated
Assets	(dollars in thousands; unaudited)							
Cash and Due from Banks	$ 4,711	$ 10,358	$ 500,059	$ 515,128	$ 4,702	$ 9,601	$ 468,825	$ 483,128
Intrabank assets	—	690,310	(690,310)	—	—	653,178	(653,178)	—
Securities	—	—	50,090	50,090	—	—	150,364	150,364
Loans held for sale	—	797	—	797	—	—	—	—
Total loans receivable	1,883,282	1,316,272	—	3,199,554	1,830,154	1,195,938	—	3,026,092
Allowance for credit losses	(21,384)	(117,874)	—	(139,258)	(21,595)	(95,363)	—	(116,958)
All other assets	29,643	165,796	43,508	238,947	30,169	136,931	43,640	210,740
Total assets	$ 1,896,252	$ 2,065,659	$ (96,653)	$ 3,865,258	$ 1,843,430	$ 1,900,285	$ 9,651	$ 3,753,366
Liabilities								
Total deposits	$ 1,434,030	$ 2,028,949	$ —	$ 3,462,979	$ 1,497,601	$ 1,862,762	$ —	$ 3,360,363
Total borrowings	—	—	47,771	47,771	—	—	47,734	47,734
Intrabank liabilities	452,861	—	(452,861)	—	338,614	—	(338,614)	—
All other liabilities	9,361	36,710	4,728	50,799	7,215	37,523	5,553	50,291
Total liabilities	$ 1,896,252	$ 2,065,659	$ (400,362)	$ 3,561,549	$ 1,843,430	$ 1,900,285	$ (285,327)	$ 3,458,388

	Three months ended March 31, 2024				Three months ended March 31, 2023			
	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank	CCBX	Treasury & Administration	Consolidated
	(dollars in thousands; unaudited)							
INTEREST INCOME AND EXPENSE								
Interest income	$ 30,052	$ 54,569	$ 5,851	$ — $ 90,472	$ 24,211	$ 42,220	$ 3,680	$ 70,111
Interest (expense) income intrabank transfer	(5,599)	8,151	(2,552)	— —	(1,079)	2,652	(1,573)	—
Interest expense	6,013	22,854	669	29,536	2,534	12,424	662	15,620
Net interest income	18,440	39,866	2,630	60,936	20,598	32,448	1,445	54,491
(Recapture)/Provision for credit losses - loans	(199)	79,717	—	79,518	428	43,116	—	43,544
Provision for unfunded commitments	2,209	1,431	—	3,640	137	16	—	153
Net interest income/(expense) after provision for credit losses - loans and unfunded commitments	16,430	(41,282)	2,630	(22,222)	20,033	(10,684)	1,445	10,794
NONINTEREST INCOME								
Deposit service charges and fees	896	12	—	908	899	11	—	910
Other income	285	68	138	491	191	133	137	461
BaaS program income	—	4,825	—	4,825	—	3,575	—	3,575
BaaS indemnification income	—	80,731	—	80,731	—	44,361	—	44,361
Noninterest income [1]	1,181	85,636	138	86,955	1,090	48,080	137	49,307
NONINTEREST EXPENSE								
Salaries and employee benefits	6,045	7,351	4,588	17,984	5,854	5,383	4,338	15,575
Occupancy	844	101	573	1,518	1,034	86	99	1,219
Data processing and software licenses	1,025	903	964	2,892	919	535	386	1,840
Legal and professional expenses	18	2,255	1,399	3,672	254	1,768	1,040	3,062
Other expense	1,035	1,578	1,579	4,192	1,031	1,114	1,269	3,414
BaaS loan expense	—	24,837	—	24,837	—	17,554	—	17,554
BaaS fraud expense	—	923	—	923	—	1,999	—	1,999
Total noninterest expense	8,967 8,967	37,948	9,103	56,018	9,092	28,439	7,132	44,663
Net income/(loss) before income taxes	8,644	6,406	(6,335)	8,715	12,031	8,957	(5,550)	15,438
Income taxes	1,822	1,581	(1,488)	1,915	2,375	1,768	(1,096)	3,047
Net income/(loss)	$ 6,822	$ 4,825	$ (4,847)	$ 6,800	$ 9,656	$ 7,189	$ (4,454)	$ 12,391

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

Overview

We are a bank holding company that operates through our wholly owned subsidiaries, Coastal Community Bank ("Bank") and Arlington Olympic LLC . We are headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. Our business is conducted through three reportable segments: The community bank CCBX and treasury & administration. The community bank segment includes all community banking activities, with a primary focus on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has 21 partners as of March 31, 2024. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments. The Bank's deposits are insured in whole or in part by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to regulation by the Federal Reserve and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has supervisory authority over the Company.

As of March 31, 2024, we had total assets of $3.87 billion, total loans receivable of $3.20 billion, total deposits of $3.46 billion and total shareholders' equity of $303.7 million.

The following discussion and analysis presents our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relate to activities primarily conducted by the Bank.

We generate most of our community bank revenue from interest on loans and CCBX revenue from BaaS fee income and interest on loans. Our primary source of funding for our loans is commercial and retail deposits from our customer relationships and from our partner deposit relationships. We place secondary reliance on wholesale funding, primarily borrowings from the Federal Home Loan Bank ("FHLB"). Less commonly used sources of funding include borrowings from the Federal Reserve System ("Federal Reserve") discount window, draws on established federal funds lines from unaffiliated commercial banks, brokered funds, which allows us to obtain deposits from sources that do not have a relationship with the Bank and can be obtained through certificate of deposit listing services, via the internet or through other advertising methods, or a one-way buy through an insured cash sweep ("ICS") account, which allows us to obtain funds from other institutions that have deposited funds through ICS. Our largest expenses are provision for credit losses - loans, BaaS loan expense, BaaS fraud expense, salaries and employee benefits, interest on deposits and borrowings, legal and professional expenses and data processing. Our principal lending products are commercial real estate loans, consumer loans, residential real estate, commercial and industrial loans and construction, land and land development loans.

Financial Indicators

Below are a select number of financial highlights from our first quarter.

- Net interest margin of 6.78% for the quarter ended March 31, 2024.
- Total loans, net of deferred fees increased $173.5 million, or 5.7%, to $3.20 billion for the quarter ended March 31, 2024 as we work to build back the CCBX portfolio with new loans, subject to enhanced credit standards, following several periods of shrinking this portfolio as part of our strategy to reduce risk, optimize the CCBX loan portfolio through higher quality new loan originations and strengthen the balance sheet through enhanced credit standards.
  - Community bank loans increased $53.1 million, or 2.9%, to $1.88 billion.
  - CCBX loans increased $120.3 million, or 10.1%, to $1.32 billion.
- Total of $100.5 million CCBX loans sold during the quarter ended March 31, 2024 as management continued to sell loans as part of our strategy to reduce risk, optimize the CCBX loan portfolio through higher quality new loan originations and strengthen our balance sheet through enhanced credit standards.
- Deposits increased $102.6 million, or 3.1%, to $3.46 billion as of March 31, 2024 compared to $3.36 billion as of December 31, 2023.
  - CCBX deposit growth of $166.2 million, or 8.9%, to $2.03 billion.

        - CCBX deposit growth is net of an additional $92.2 million in CCBX deposits that were transferred off balance sheet to provide increased Federal Deposit Insurance Corporation ("FDIC") insurance coverage purposes, compared to $69.4 million for the quarter ended December 31, 2023. Amounts in excess of FDIC insurance coverage are transferred, using a third party facilitator/vendor sweep product, to participating financial institutions.
    - Community bank deposits decreased $63.6 million, or 4.2%, to $1.43 billion.
        - We focus on growing and retaining less costly core deposits by not globally matching increases in rates on interest bearing deposits by our competitors and letting higher rate deposits run-off; additional exception pricing tactics were added as a strategy at the end of the first quarter of 2024 to retain and more effectively compete in the market.
        - Includes noninterest bearing deposits of $515.4 million or 35.9% of total community bank deposits.
        - Community bank cost of deposits was 1.66%.
    - Uninsured deposits of $495.6 million, or 14.3% of total deposits as of March 31, 2024, compared to $558.6 million, or 16.6% of total deposits as of December 31, 2023.
- Liquidity/Borrowings as of March 31, 2024:
    - Capacity to borrow up to $659.5 million from Federal Home Loan Bank and the Federal Reserve Bank discount window with no borrowings taken under these facilities during the quarter or three months ended March 31, 2024.
- Investment Portfolio as of March 31, 2024:
    - Available for sale ("AFS") investments of $41,000, compared to $99.5 million as of December 31, 2023, of with a weighted average remaining life of 4.3 years as of March 31, 2024. $100.0 million in AFS U.S. Agency securities matured during the quarter ended March 31, 2024.
    - Held to maturity ("HTM") investments of $50.0 million, of which 100% are U.S. Agency mortgage backed securities held for CRA purposes. The market value of the HTM investments is $299,000 less than the carrying value, the weighted average remaining life is 14.6 years as of March 31, 2024 and the weighted average yield is 5.46% for the quarter ended March 31, 2024.
- Cost of deposits of 3.49% for the quarter ended March 31, 2024.
- Continued investment in technology to build and enhance the BaaS infrastructure, increase automation, enhance operational efficiency and productivity requires significant upfront expense, but is necessary for long-term success.
- Decrease in net income driven by $2.3 million in unanticipated expenses, net of income tax, (more information is provided on these expenses under *"Results of Operations"*).

Deposits increased $102.6 million, or 3.1% to $3.46 billion as of March 31, 2024 compared to $3.36 billion as of December 31, 2023. Fully insured IntraFi network reciprocal deposits decreased $3.4 million to $336.8 million as of March 31, 2024, compared to $340.1 million as of December 31, 2023. These fully insured sweep deposits allow the Bank to fully insure their larger customer deposits through a sweep and exchange of deposits with other financial institutions. Total loans, net of deferred fees increased $173.5 million, or 5.7%, during the three months ended March 31, 2024 to $3.20 billion, compared to $3.03 billion at December 31, 2023. Community bank loans increased $53.1 million, or 2.9%, and CCBX loans increased $120.3 million, or 10.1%. The size of our CCBX loan portfolio increased during the quarter ended March 31, 2024 and we expect it to continue increasing as we work to grow the portfolio with loans that are subject to increased underwriting standards. CCBX loan growth is net of $100.5 million in CCBX loans sold during the quarter ended March 31, 2024. We continue to monitor and manage the CCBX loan portfolio, and will continue to sell CCBX loans in the coming months as we work to strengthen the balance sheet by optimizing our CCBX portfolio through new partners, products and building on our existing relationships. At the same time we will be focused on increasing our efficiency and using technology to reduce future expense growth. Our liquidity position is supported by diligent management of our liquid assets and liabilities as well as maintaining access to alternative sources of funds. As of March 31, 2024 we had $515.1 million in cash on the balance sheet and the capacity to borrow up to $659.5 million from Federal Home Loan Bank and the Federal Reserve Bank discount window. We did not draw down on either facility at any point in the three months ending March 31, 2024. Cash on the balance sheet and borrowing capacity total $1.17 billion and represented 33.9% of total deposits and exceeded our $495.6 million in uninsured deposits as of March 31, 2024. Our AFS securities portfolio of $41,000 has a weighted average remaining maturity of just 4 years, 4 months. Unrealized losses on the AFS securities portfolio were $3,374, or 0.001%, of shareholders' equity as of March 31, 2024.

As we continue to focus on our BaaS business, we intend to concentrate on working with larger partners and optimizing our CCBX loan portfolio so we can grow and advance our presence in the BaaS space. Our strategy for new CCBX partnerships is to focus on larger, more established partners, including national and publicly-traded companies with experienced management teams, existing customer bases and strong financial positions. This strategy will likely yield fewer, but larger, CCBX partnerships moving forward. We are being more intentional in our selection of products and partnerships that best serve our customers and shareholders in order to achieve our long term profitability objectives. We anticipate continuing to look for opportunities to grow our Company and will focus on the long term, holding down deposits costs when possible and managing expense through efficient use of technology.

Results of Operations

Net Income

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

Net income for the three months ended March 31, 2024 was $6.8 million, or $0.50 per diluted share, compared to $12.4 million, or $0.91 per diluted share, for the three months ended March 31, 2023. The decrease in net income over the comparable period in the prior year was primarily attributable to a $13.9 million increase in interest expense due to an increase in average interest bearing deposits and an increase of in cost of deposits as a result of higher interest rates, an increase in the provision for credit losses - loans of $39.5 million, related to CCBX loan growth, and $11.4 million more in noninterest expense, also largely related to CCBX loan growth, increases in salary expense and professional fees and a number of unanticipated expenses incurred during the quarter ended March 31, 2024 described in more detail below. These increases in expense were partially offset by a $20.4 million increase in interest income and $37.6 million increase in noninterest income. The increase in noninterest income, provision expense and noninterest expense are all largely related to increased CCBX loan and deposit activity. In accordance with GAAP, we recognize as revenue (1) the right to be indemnified or reimbursed for fraud losses on CCBX customer loans and deposits and (2) the right to be indemnified for credit losses by our partners for expected credit losses related to loans they originate and unfunded commitments from such loans. CCBX customer credit losses are recognized in the allowance for credit loss and fraud loss is recognized in BaaS noninterest expense. For more information on the accounting for BaaS allowance for credit losses, reserve for unfunded commitments, credit enhancements and fraud enhancements see the section titled *"CCBX – BaaS Reporting Information."*

During the quarter ended March 31, 2024, we incurred a number of unanticipated expenses. Below is a summary non-GAAP reconciliation of the financial effects of these items.

	Three Months Ended		
Non-GAAP Reconciliation of Unanticipated Expenses	March 31, 2024		
(dollars in thousands; unaudited)	**Actual**	**Unanticipated Expenses**	**Adjusted**
Net interest income	$ 60,936	$ —	$ 60,936
Provision for credit losses	(83,158)	(1,096)	(82,062)
Noninterest income	86,955	—	86,955
Noninterest expense[1]	(56,018)	(1,915)	(54,103)
Income before provision for income tax	8,715	(3,010)	11,725
Provision for income tax	(1,915)	662	(2,577)
Net income	$ 6,800	$ (2,348)	$ 9,148

[1] Table below shows the detail of unanticipated noninterest expense shown in table above:

Unanticipated noninterest expense:	
Audit and accounting services	$ 849
Contract termination fee	600
Operational loss	122
Employment realignment costs	343
Total unanticipated noninterest expense items	$ 1,915

Net Interest Income

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

Net interest income for the three months ended March 31, 2024 was $60.9 million, compared to $54.5 million for the three months ended March 31, 2023, an increase of $6.4 million, or 11.8%. Yield on loans receivable was 10.85% for the three months ended March 31, 2024, compared to 9.95% for the three months ended March 31, 2023. The increase in net interest income compared to the quarter ended March 31, 2023 was largely related to increased yield on loans from growth in higher yielding loans, primarily from CCBX, and the overall increase in interest rates resulting from the Federal Open Market Committee ("FOMC") raising rates 0.50% since March 31, 2023 to 5.50%, with the last increase during such period on July 26, 2023. As of March 31, 2023, the FOMC had set the interest rates at 5.00%. This increase in interest rates since then impacts our existing variable rate loans as well as rates on new loans. We continue to monitor the impact of these increases in interest rates. Total average loans receivable for the three months ended March 31, 2024 was $3.14 billion, compared to $2.71 billion for the three months ended March 31, 2023.

Total interest and fees on loans totaled $84.6 million for the three months ended March 31, 2024 compared to $66.4 million for the three months ended March 31, 2023. The $18.2 million increase in interest and fees on loans for the quarter ended March 31, 2024, compared to the quarter ended March 31, 2023, was largely due to increased yield on loans from growth in higher yielding loans, primarily from CCBX, combined with the overall increase in interest rates. After several quarters of selling loans with higher credit risk, we expect total interest and fees on loans to increase as volume increases, despite yields stabilizing, as we build back our CCBX portfolio with loans that have enhanced credit standards but lower yields, compared to previous periods when credit risk and loan yields were higher. Total loans receivable was $3.20 billion at March 31, 2024, compared to $2.84 billion at March 31, 2023. CCBX average loans receivable was $1.27 billion for the quarter ended March 31, 2024, compared to $1.06 billion for the quarter ended March 31, 2023, an increase of $201.7 million, or 19.0%. Average CCBX yield of 17.34% was earned on CCBX loans for the quarter ended March 31, 2024, compared to 16.09% for the quarter ended March 31, 2023. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Also impacting the increase in loan interest is the increase in interest rates on variable rate loans resulting from the continued high interest rate environment. The FOMC has increased interest rates from 5.00% as of March 31, 2023 to 5.50% as of March 31, 2024. We continue to monitor the impact of these increases in interest rates.

Interest income from interest earning deposits with other banks was $4.8 million for the quarter ended March 31, 2024, an increase of $1.7 million, or 54.3%, due to an increase in balances and higher interest rates, compared to the quarter ended March 31, 2023. The average balance of interest earning deposits invested with other banks for the three months ended March 31, 2024 was $350.9 million, compared to $271.7 million for the three months ended March 31, 2023. The yield on these interest earning deposits with other banks increased 0.86%, to 5.48% compared to 4.62% at March 31, 2023. Interest income on investment securities increased $481,000 to $1.0 million at March 31, 2024, compared to $553,000 at March 31, 2023. Average investment securities increased $13.1 million from $102.2 million for the three months ended March 31, 2023, to $115.4 million for the three months ended March 31, 2024, and, as a result of higher interest rates, average yield increased to 3.60% for the three months ended March 31, 2024, compared to 2.19% for the three months ended March 31, 2023. The increase in average investment securities is a result of purchasing additional U.S. Agency mortgage backed securities for CRA purposes. CRA securities are designated held-to-maturity ("HTM") and the weighted average yield of those securities was 5.46% for the quarter ended March 31, 2024.

Interest expense was $29.5 million for the quarter ended March 31, 2024, a $13.9 million increase from the quarter ended March 31, 2023. Interest expense on deposits was $28.9 million for the quarter ended March 31, 2024, compared to $15.0 million for the quarter ended March 31, 2023. The $13.9 million increase in interest expense on deposits was due to an increase of $658.7 million in interest bearing deposits as well as a 1.32% increase in interest rates on deposit accounts. While we continue working to hold down deposit costs, higher short-term interest rates for longer and future interest rate changes will impact our cost of deposits. Interest on borrowed funds was $669,000 for the quarter ended March 31, 2024, compared to $662,000 for the quarter ended March 31, 2023. Interest expense on interest bearing deposits increased compared to the quarter ended March 31, 2023 as a result of an increase in CCBX deposits that are tied to, and reprice when, the FOMC raises rates. Similarly, most of our CCBX loans also reprice when the FOMC raises interest rates. Interest expense will be impacted by any additional FOMC interest rate changes in future periods.

Net interest margin was 6.78% for the three months ended March 31, 2024, compared to 7.15% for the three months ended March 31, 2023. The decrease in net interest margin compared to the three months ended March 31, 2023 was largely due

to an increase in cost of deposits. Increases in rates on interest bearing deposits by our competitors and the growth in higher cost CCBX deposits contributed to an overall increase in interest expense on interest bearing deposits. Additionally, the actions we took in an effort to strengthen our balance sheet by selling higher risk and higher yielding loans or letting such loans mature during the quarters ended September 30, 2023, December 31, 2023 and March 31, 2024 will continue to impact net interest margin in future quarters.

Cost of funds was 3.52% for the quarter ended March 31, 2024, which is an increase of 1.33% from the quarter ended March 31, 2023. Cost of deposits for the quarter ended March 31, 2024 was 3.49%, which was a 1.36% increase, from 2.13% for the quarter ended March 31, 2023. These increases were largely due to an increase in higher cost CCBX deposits and a higher interest rate environment compared to March 31, 2023 as the FOMC raised the Fed funds rate 0.50% from March 31, 2023 to March 31, 2024.

Total yield on loans receivable for the quarter ended March 31, 2024 was 10.85%, compared to 9.95% for the quarter ended March 31, 2023. This increase in yield on loans receivable is primarily attributed to an increase in higher rate CCBX loans. For the quarter ended March 31, 2024, average CCBX loans increased $201.7 million, or 19.0%, with an average CCBX yield of 17.34%, compared to 16.09% at the quarter ended March 31, 2023. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Average community bank loans increased $227.4 million, or 13.8%. Average yield on community bank loans for the three months ended March 31, 2024 was 6.46% compared to 5.97% for the three months ended March 31, 2023.

The following tables (1) show the average yield on loans and cost of deposits by segment and (2) illustrate how BaaS loan interest income is affected by BaaS loan expense resulting in net BaaS loan income and the associated yield for the periods indicated:

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
(unaudited)	Yield on Loans [2]	Cost of Deposits [2]	Yield on Loans [2]	Cost of Deposits [2]
Community Bank	6.46%	1.66%	5.97%	0.66%
CCBX[1]	17.34%	4.93%	16.09%	3.89%
Consolidated	10.85%	3.49%	9.95%	2.13%

(1) CCBX yield on loans does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. See the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*" for a reconciliation of the impact of BaaS loan expense on CCBX yield on loans.
(2) Annualized calculations shown for periods presented.

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
(dollars in thousands, unaudited)	Income / Expense	Income / expense divided by average CCBX loans [2]	Income / Expense	Income / expense divided by average CCBX loans [2]
BaaS loan interest income	$ 54,569	17.34 %	$ 42,220	16.09 %
Less: BaaS loan expense	24,837	7.89 %	17,554	6.69 %
Net BaaS loan income [1]	$ 29,732	9.45 %	$ 24,666	9.40 %
Average BaaS Loans [3]	$ 1,265,857		$ 1,064,192	

(1) A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"
(2) Annualized calculations shown for periods presented.
(3) Includes loans held for sale.

For the three months ended March 31, 2024, net interest margin (net interest income divided by the average total interest earning assets) and net interest spread (average yield on total interest earning assets minus average cost of total interest

bearing liabilities) were 6.78% and 5.79%, respectively, compared to 7.15% and 6.20%, respectively, for the three months ended March 31, 2023.

The following table presents an analysis of the average balances of net interest income, net interest spread and net interest margin for the periods indicated. Loan costs, net of fees included in interest income totaled $1.9 million and $1.1 million for the three months ended March 31, 2024 and 2023, respectively. For the three months ended March 31, 2024 and 2023, the amount of interest income not recognized on nonaccrual loans was not material.

	Average Balance Sheets For the Three Months Ended March 31,					
	2024			2023		
(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost [1]	Average Balance	Interest & Dividends	Yield / Cost [1]
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 350,868	$ 4,780	5.48 %	$ 271,700	$ 3,097	4.62 %
Investment securities, available for sale [2]	64,878	349	2.16	100,273	535	2.16
Investment securities, held to maturity [2]	50,490	685	5.46	1,955	18	3.73
Other investments	10,262	37	1.45	10,633	30	1.14
Loans receivable [3]	3,137,271	84,621	10.85	2,708,177	66,431	9.95
Total interest earning assets	3,613,769	90,472	10.07	3,092,738	70,111	9.19
Noninterest earning assets:						
Allowance for credit losses	(114,985)			(81,086)		
Other noninterest earning assets	229,437			172,161		
Total assets	$ 3,728,221			$ 3,183,813		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	$ 2,728,884	$ 28,867	4.25 %	$ 2,070,217	$ 14,958	2.93 %
FHLB advances and other borrowings	5	—	—	—	—	—
Subordinated debt	44,159	598	5.45	44,010	599	5.52
Junior subordinated debentures	3,590	71	7.95	3,588	63	7.12
Total interest bearing liabilities	2,776,638	29,536	4.28	2,117,815	15,620	2.99
Noninterest bearing deposits	595,693			775,940		
Other liabilities	58,829			37,448		
Total shareholders' equity	297,061			252,610		
Total liabilities and shareholders' equity	$ 3,728,221			$ 3,183,813		
Net interest income		$ 60,936			$ 54,491	
Interest rate spread			5.79 %			6.20 %
Net interest margin [4]			6.78 %			7.15 %

(1) Yields and costs are annualized.
(2) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.
(3) Includes loans held for sale and nonaccrual loans.
(4) Net interest margin represents net interest income divided by the average total interest earning assets.

The following table presents an analysis of certain average balances, interest income and expense by segment:

	For the Three Months Ended					
	March 31, 2024			March 31, 2023		
(dollars in thousands, unaudited)	Average Balance	Interest & Dividends	Yield / Cost [1]	Average Balance	Interest & Dividends	Yield / Cost [1]
Community Bank						
Assets						
Interest earning assets:						
Loans receivable [2]	$ 1,871,414	$ 30,052	6.46 %	$ 1,643,985	$ 24,211	5.97 %
Intrabank asset	—	—	—	—	—	—
Total interest earning assets	1,871,414	30,052	6.46	1,643,985	24,211	5.97
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 922,340	$ 6,013	2.62 %	$ 853,152	$ 2,534	1.20 %
Intrabank liability	410,993	5,599	5.48	94,668	1,079	4.62
Total interest bearing liabilities	1,333,333	11,612	3.50	947,820	3,613	1.55
Noninterest bearing deposits	538,081			696,166		
Net interest income		$ 18,440			$ 20,598	
Net interest margin [3]			3.96 %			5.08 %
CCBX						
Assets						
Interest earning assets:						
Loans receivable [2][4]	$ 1,265,857	$ 54,569	17.34 %	$ 1,064,192	$ 42,220	16.09 %
Intrabank asset	598,299	8,151	5.48	232,647	2,652	4.62
Total interest earning assets	1,864,156	62,720	13.53	1,296,839	44,872	14.03
Liabilities						
Interest bearing liabilities:						
Interest bearing deposits	$ 1,806,544	$ 22,854	5.09 %	$ 1,217,065	$ 12,424	4.14 %
Total interest bearing liabilities	1,806,544	22,854	5.09	1,217,065	12,424	4.14
Noninterest bearing deposits	57,612			79,774		
Net interest income		$ 39,866			$ 32,448	
Net interest margin [3]			8.60 %			10.15 %
Net interest margin, net of Baas loan expense [5]			3.24 %			4.66 %

(dollars in thousands, unaudited)	For the Three Months Ended					
	March 31, 2024			March 31, 2023		
	Average Balance	Interest & Dividends	Yield / Cost [1]	Average Balance	Interest & Dividends	Yield / Cost [1]
Treasury & Administration						
Assets						
Interest earning assets:						
Interest earning deposits with other banks	$ 350,868	$ 4,780	5.48 %	$ 271,700	$ 3,097	4.62 %
Investment securities, available for sale [6]	64,878	349	2.16	100,273	535	2.16
Investment securities, held to maturity [6]	50,490	685	5.46	1,955	18	3.73
Other investments	10,262	37	1.45	10,633	30	1.15
Total interest earning assets	476,498	5,851	4.94	384,561	3,680	3.88 %
Liabilities						
Interest bearing liabilities:						
FHLB advances and borrowings	$ 5	$ —	5.43 %	—	—	—%
Subordinated debt	44,159	598	5.45	44,010	599	5.52
Junior subordinated debentures	3,590	71	7.95	3,588	63	7.12
Intrabank liability, net [7]	187,306	2,552	5.48	137,979	1,573	4.62
Total interest bearing liabilities	235,060	3,221	5.51	185,576	2,235	4.89
Net interest income		$ 2,630			$ 1,445	
Net interest margin[3]			2.22 %			1.52 %

(1) Yields and costs are annualized.
(2) Includes loans held for sale and nonaccrual loans.
(3) Net interest margin represents net interest income divided by the average total interest earning assets.
(4) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. See the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*" for a reconciliation of the impact of BaaS loan expense on CCBX loan yield.
(5) Net interest margin, net of BaaS loan expense includes the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements, servicing CCBX loans. A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures*."
(6) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.
(7) Intrabank assets and liabilities are consolidated for period calculations and presented as intrabank asset, net or intrabank liability, net in the table above.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. The table illustrates the $6.1 million increase in loan interest income that is attributed to an increase in loan rates and $12.1 million increase in loan interest income that is attributed to an increase in loan volume. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to volume.

	Three months ended March 31, 2024 Compared to Three months ended March 31, 2023		
	Increase (Decrease) Due to		
(dollars in thousands; unaudited)	Volume	Rate	Total Increase (Decrease)
Interest income:			
Interest earning deposits	$ 1,103	$ 580	$ 1,683
Investment securities, available for sale	(186)	—	(186)
Investment securities, held to maturity	659	8	667
Other Investments	(1)	8	7
Loans receivable	12,112	6,078	18,190
Total increase in interest income	13,687	6,674	20,361
Interest expense:			
Interest bearing deposits	7,074	6,835	13,909
Subordinated debt	7	(8)	(1)
Junior subordinated debentures	1	7	8
Total increase in interest expense	7,082	6,834	13,916
Increase in net interest income	$ 6,605	$ (160)	$ 6,445

Provision for Credit Losses

The provision for credit losses - loans is an expense we incur to maintain an allowance for credit losses at a level that management deems appropriate to absorb inherent losses on existing loans in accordance with GAAP. For a description of the factors taken into account by our management in determining the allowance for credit losses see "—Financial Condition—Allowance for Credit Losses."

The economic environment is continuously changing, due to the pace of economic growth, inflation, higher interest rates, unemployment, global unrest, the war in Ukraine, conflicts in the Middle East, the political environment and trade issues that may impact the provision and therefore the allowance. Gross loans, excluding loans held for sale, totaled $3.20 billion at March 31, 2024. The allowance for credit losses as a percentage of loans was 4.35% at March 31, 2024, compared to 3.14% at March 31, 2023.

Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by indemnifying or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's legal commitment to indemnify or reimburse losses. The credit enhancement asset is relieved as credit enhancement payments are received from the CCBX partner or taken from the partner's cash reserve account.

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

The provision for credit losses - loans for the three months ended March 31, 2024 was $79.5 million, compared to $43.5 million for the three months ended March 31, 2023. The increase in the Company's provision for credit losses - loans during the quarter ended March 31, 2024, is largely related to the provision for CCBX partner loans. During the quarter ended March 31, 2024, a $79.7 million provision for credit losses - loans was recorded for CCBX partner loans based on

management's analysis. The factors used in management's analysis for community bank credit losses indicated that a recapture for credit losses - loans of $199,000 was needed for the quarter ended March 31, 2024.

The following table shows the provision expense by segment for the periods indicated:

	Three Months Ended	
(dollars in thousands; unaudited)	March 31, 2024	March 31, 2023
Community bank	$ (199)	$ 428
CCBX	79,717	43,116
Total provision expense	$ 79,518	$ 43,544

Net charge-offs for the quarter ended March 31, 2024 totaled $57.2 million, or 7.34% of total average loans, compared to $32.3 million, or 4.84% of total average loans, for the quarter ended March 31, 2023. Net charge-offs were up in 2024 compared to 2023 due to an increase in loans originated through CCBX partners which have a a higher level of expected losses than our community bank loans as reflected in the factors for allowance for credit losses. In accordance with GAAP, CCBX losses are recorded as charge-offs, but CCBX partner agreements provide for a credit enhancement that indemnifies or reimburses the Bank for net-charge-offs on CCBX loans and negative deposit accounts, except in accordance with the program agreement for one partner where the Company was responsible for credit losses on approximately 10% of a $317.8 million loan portfolio. At March 31, 2024, our portion of this portfolio represented $32.0 million in loans. Effective April 1, 2024 the agreement was modified and the Company is now responsible for 5% of the credit losses on this loan portfolio. For the three months ended March 31, 2024, $57.2 million of net charge-offs were recognized for CCBX loans and $11,000 net charge-offs were recognized on community bank loans. For the three months ended March 31, 2023, $32.3 million of net charge-offs were recognized on CCBX loans and $45,000 of net charge-offs were recognized for community bank loans.

Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill their contracted obligations to replenish their cash reserve account then the Bank would be exposed to additional losses, as a result of this counterparty risk. If a CCBX partner does not replenish their cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit enhancements. The Bank would write-off any remaining credit enhancement asset from the CCBX partner but would retain the full yield and any fee income on the loan portfolio going forward, and BaaS loan expense would decrease once default occurred and payments to the CCBX partner were stopped.

The following table shows the total charge-off activity by segment for the periods indicated:

	Three Months Ended					
	March 31, 2024			March 31, 2023		
(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	$ 15	$ 58,979	$ 58,994	$ 50	$ 34,117	$ 34,167
Gross recoveries	(4)	(1,772)	(1,776)	(5)	(1,860)	(1,865)
Net charge-offs	$ 11	$ 57,207	$ 57,218	$ 45	$ 32,257	$ 32,302
Net charge-offs to average loans [1]	— %	18.18 %	7.34 %	0.01 %	12.29 %	4.84 %

[1] Annualized calculations shown for periods presented.

Noninterest Income

Our primary sources of recurring noninterest income are BaaS indemnification income, Baas program income and deposit service charges and fees. Noninterest income does not include loan origination fees, which are generally recognized over the life of the related loan as an adjustment to yield using the interest or similar method.

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

For the three months ended March 31, 2024, noninterest income totaled $87.0 million, an increase of $37.6 million, or 76.4%, compared to $49.3 million for the three months ended March 31, 2023.

The following table presents, for the periods indicated, the major categories of noninterest income:

(dollars in thousands; unaudited)	Three Months Ended March 31, 2024	2023	Increase (Decrease)	Percent Change
Deposit service charges and fees	$ 908	$ 910	$ (2)	(0.2)%
Gain on sales of loans, net	—	123	(123)	(100.0)
Unrealized gain (loss) on equity securities, net	15	39	(24)	(61.5)
Loan referral fees	168	—	168	100.0
Other	308	299	9	3.0
Noninterest income, excluding BaaS program income and BaaS indemnification income	1,399	1,371	28	2.0
Servicing and other BaaS fees	1,131	948	183	19.3
Transaction fees	1,122	917	205	22.4
Interchange fees	1,539	789	750	95.1
Reimbursement of expenses	1,033	921	112	12.2
BaaS program income	4,825	3,575	1,250	35.0
BaaS credit enhancements	79,808	42,362	37,446	88.4
Baas fraud enhancements	923	1,999	(1,076)	(53.8)
BaaS indemnification income	80,731	44,361	36,370	82.0
Total BaaS income	85,556	47,936	37,620	78.5
Total noninterest income	$ 86,955	$ 49,307	$ 37,648	76.4 %

Summary of significant noninterest income for the three months ended March 31, 2024 compared to the three months ended March 31, 2023

A description of our largest noninterest income categories are below:

BaaS Income. Our CCBX segment provides BaaS offerings that enable our broker dealer and digital financial service providers to offer their customers banking services. In exchange for providing these services, we earn fixed fees, volume-based fees and reimbursement of costs depending on the program agreement. In accordance with GAAP, we recognize the reimbursement of noncredit fraud losses on loans and deposits originated through partners and credit enhancements related to the allowance for credit losses and reserve for unfunded commitments provided by the partner as revenue in BaaS income. CCBX credit losses are recognized in the allowance for credit losses -loans and fraud losses are expensed in noninterest expense under BaaS fraud expense. Also in accordance with GAAP, we establish a credit enhancement asset for expected future credit losses through the recognition of BaaS credit enhancement revenue at the same time we establish an allowance for those loans though a provision for credit losses - loans. For more information on the accounting for BaaS allowance for credit losses, reserve for unfunded commitments, credit enhancements and fraud enhancements see the section titled *"CCBX – BaaS Reporting Information."*

Our CCBX segment continues to evolve, and we now have 21 relationships, at varying stages, as of March 31, 2024. We continue to refine the criteria for CCBX partnerships and are exiting relationships where it makes sense and are focusing on expanding and developing relationships with larger and more established partners, with experienced management teams, existing customer bases and strong financial positions. The sale of certain CCBX loans during the third and fourth quarters of 2023 and first quarter of 2024 is part of our strategy to strengthen the balance sheet and lower the overall potential credit risk in our loan portfolio. These sales resulted in a tighter interest margin in the quarter ended March 31, 2024, as higher quality loans yield less than higher risk loans. The size of our CCBX loan portfolio increased during the quarter ended March 31, 2024 and we expect it to continue increasing as we work to grow the portfolio with loans that are subject to increased underwriting standards.

The following table illustrates the activity and evolution in CCBX relationships for the periods presented.

	As of	
(unaudited)	**March 31, 2024**	**March 31, 2023**
Active	19	18
Friends and family / testing	1	1
Implementation / onboarding	1	1
Signed letters of intent	0	4
Wind down - active but preparing to exit relationship	0	1
Total CCBX relationships	21	25

Deposit Service Charges and Fees. Deposit service charges and fees include service charges on accounts, point-of-sale fees, merchant services fees and overdraft fees. Together they constitute the largest component of our noninterest income, outside of BaaS income.

Loan Referral Fees. We earn loan referral fees when we originate a variable rate loan and the borrower enters into an interest rate swap agreement with a third party to fix the interest rate for an extended period, usually 20 or 25 years. We recognize a loan referral fee for arranging the interest rate swap. By facilitating interest rate swaps to our clients, we are able to provide them with a long-term, fixed interest rate without the Bank assuming the interest rate risk. Interest rate volatility, swap rates, and the timing of loan closings all impact the demand for long-term fixed rate swaps. The recognition of loan referral fees fluctuates in response to these market conditions and as a result we may recognize more or less, or may not recognize any, loan referral fees in some periods. Current market conditions are making interest rate swap agreements less attractive in the higher rate environment.

Gain on Sales of Loans, net. Gain on sales of loans occurs when we sell certain CCBX loans to the originating partner, in accordance with partner agreements. Gain on sale of loans may also occur when we sell in the secondary market the guaranteed portion (generally 75% of the principal balance) of the SBA and U.S. Department of Agriculture ("USDA") loans that we originate. This activity fluctuates based on SBA and USDA loan activity.

Unrealized (loss)/gain on equity securities, net. During the three months ended March 31, 2024, we recognized an unrealized gain on equity securities of $15,000, compared to the same period ended March 31, 2023, when there was an unrealized gain of $39,000 recognized. We hold $3.0 million in equity securities focused on entities providing products to the BaaS and financial services space.

Other. This category includes a variety of other income-producing activities, credit card fee income, wire transfer fees, interest earned on bank owned life insurance ("BOLI"), and SBA and USDA servicing fees.

Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The largest components of noninterest expense are BaaS loan and fraud expense and salaries and employee benefits. Noninterest expense also includes operational expenses, such as legal and professional expenses, data processing and software licenses, occupancy, points of sale expense, FDIC assessment, excise taxes, director and staff expenses, marketing and other expenses.

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

For the three months ended March 31, 2024, noninterest expense totaled $56.0 million, an increase of $11.4 million, or 25.4%, compared to $44.7 million for the three months ended March 31, 2023. The increase of noninterest expenses was driven in part by approximately $3.0 million in unanticipated expenses incurred during the quarter ended March 31, 2024 described under the heading "*Results of Operations - Net Income—Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year*." Compared to the three months ended March 31, 2023, there was a $977,000 increase in other expenses primarily due to expenses from exit costs associated with a fraud/compliance vendor of $600,000 and an operational loss of $122,000, a $1.1 million increase in data processing and software licenses due to enhancements in technology and a $116,000 increase in point of sale expenses which is attributed to increased CCBX activity.

The following table presents, for the periods indicated, the major categories of noninterest expense:

(dollars in thousands; unaudited)	Three Months Ended March 31, 2024	2023	Increase (Decrease)	Percent Change
Salaries and employee benefits	$ 17,984	$ 15,575	$ 2,409	15.5 %
Legal and professional expenses	3,672	3,062	610	19.9
Data processing and software licenses	2,892	1,840	1,052	57.2
Occupancy	1,518	1,219	299	24.5
Point of sale expense	869	753	116	15.4
FDIC assessments	683	595	88	14.8
Excise taxes	320	455	(135)	(29.7)
Director and staff expenses	400	626	(226)	(36.1)
Marketing	53	95	(42)	(44.2)
Other	1,867	890	977	109.8
Noninterest expense, excluding BaaS loan and BaaS fraud expense	30,258	25,110	5,148	20.5
BaaS loan expense	24,837	17,554	7,283	41.5
BaaS fraud expense	923	1,999	(1,076)	(53.8)
BaaS loan and fraud expense	25,760	19,553	6,207	31.7
Total noninterest expense	$ 56,018	$ 44,663	$ 11,355	25.4 %

Summary of significant noninterest expense for the three months ended March 31, 2024 compared to the three months ended March 31, 2023

A description of our largest noninterest expense categories are below:

Salaries and Employee Benefits. Salaries and employee benefits are one of the largest components of noninterest expense and include payroll expense, incentive compensation costs, equity compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits continue to increase primarily due to continued hiring staff for our CCBX segment and additional staff for our ongoing growth initiatives. As our CCBX activities grow, we expect to continue to add employees to support these lines of business and to also automate our processes to reduce or slow future growth in hiring. During the three months ended March 31, 2024 salaries and employee benefits included one-time expenses of $344,000 for certain retirement costs and other expenses incurred as part of our long-term strategy for enhanced efficiencies while holding staffing fairly level in 2024. As of March 31, 2024, we had 486 full-time equivalent employees, compared to 461 at March 31, 2023, a 5.4% increase.

Legal and Professional Expenses. Legal and professional costs include legal, audit and accounting expenses, consulting fees, fees for recruiting and hiring employees, and IT related security expenses. These expenses fluctuate with the consulting costs related to risk management, development of contracts for CCBX customers, audit and accounting needs, and are impacted by our reporting cycle and timing of legal and professional services. The expenses also reflect the costs associated with our infrastructure enhancement projects to improve our processing, automate processes, reduce compliance

costs and enhance our data management. The increase in legal and professional fees was related to data and risk management, building out our infrastructure and increased consulting expenses for projects.

Data Processing and Software Licenses. Data processing and software licenses includes expenses related to obtaining and maintaining software required for our various functions. Data processing costs include all of our customer transaction processing and data storage, computer processing, and network costs. Data processing costs grow as we grow and add new products, customers and branches and enhance technology. Additionally, CCBX data processing expenses and software that aids in the reporting of CCBX activities and monitoring of transactions that helps to automate and create other efficiencies in reporting have resulted in increased expenses in the category. These expenses are expected to increase as we invest more in automated processing and as we grow product lines and our CCBX segment.

Occupancy. Occupancy expenses include rent, utilities, janitorial and other maintenance expenses, property insurances and taxes. Also included is depreciation on building, leasehold, furniture, fixtures and equipment. Although our hybrid and remote workforce is increasing, which helps keep some occupancy expenses down, we do expect occupancy expenses to increase as we continue to grow.

Point of Sale Expenses. Point of sale expenses are incurred as part of the process that allows businesses to accept payment for goods or services. Generally, point of sale expense increases as point of sale activity increases, as does point of sale income which is recognized in other income.

FDIC Assessments. FDIC assessments are assessed to fund the Deposit Insurance Fund ("DIF") to insure and protect the depositors of insured banks and to resolve failed banks. The assessment rate is based on a number of factors and recalculated each quarter. As deposits increase, the FDIC assessment expense will generally increase. On October 18, 2022 the FDIC finalized an increase of 2 basis points in the initial base deposit insurance assessment rates schedules, beginning with the first quarterly assessment period of 2023. The rise is intended to increase the reserve ratio of the Deposit Insurance Fund to 1.35%, the statutory requirement. The increase in the base rates will remain in place until the reserve ratio reaches or exceeds 2.0%. The reserve ratio is 1.15% as of December 31, 2023. The reserve ratio is negatively affected by growth in assets and bank failures.

Director and Staff Expenses. Director and staff expenses includes compensation for director service, continuing education for employees and other director and staff related expenses. As conferences and other professional events have resumed we have seen increased expenses related to employee travel, and continuing education.

Excise Taxes. Excise taxes are assessed on Washington state income and are based on gross income. Gross income is reduced by certain allowed deductions and income attributed to other states is also removed to arrive at the taxable base. Excise taxes increased as a result of increased income subject to excise taxes.

Marketing. Marketing and promotion costs are starting to increase as we deploy more branding and targeted advertising for the community bank and CCBX. We are using more cost-effective advertising options, but expect costs to increase as we expand our marketing plan.

Other. This category includes dues and memberships, office supplies, mail services, telephone, examination fees, internal loan expenses, services charges from banks, operational losses, directors and officer's insurance, donations, and miscellaneous other expenses.

BaaS loan and fraud expense. Our CCBX segment provides BaaS offerings that enable our broker dealer and digital financial service providers to offer their customers banking services. Included in BaaS loan and fraud expense is partner loan expense including overdraft balances and BaaS fraud expense. Partner loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. BaaS fraud expense represents noncredit fraud losses on loans and deposits originated through partners. Fraud losses are recorded when incurred as losses in noninterest expense, and the reimbursement from the CCBX partner is recorded in noninterest income,

resulting in a net impact of zero to the income statement. For more information on the accounting for BaaS loan and fraud expenses see the section titled "CCBX – BaaS Reporting Information."

The following table presents, for the periods indicated, the BaaS loan and fraud expenses:

	Three Months Ended	
(dollars in thousands; unaudited)	March 31, 2024	March 31, 2023
BaaS loan expense	$ 24,837	$ 17,554
BaaS fraud expense	923	1,999
Total BaaS loan and fraud expense	$ 25,760	$ 19,553

Income Tax Expense

The amount of income tax expense we incur is impacted by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at current income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce our deferred tax assets to the amount expected to be realized. The Company is subject to various state taxes that are assessed as CCBX activities and employees expand into other states, which increases the overall tax rate used in calculating the provision for income taxes in the current and future periods.

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

For the three months ended March 31, 2024, income tax expense totaled $1.9 million, compared to $3.0 million for the three months ended March 31, 2023. The $1.1 million decrease in income tax expense is the result of lower net income. The effective tax rate was 22.0% for the three months ended March 31, 2024, compared to 19.7% for the three months ended March 31, 2023. The effective tax rate was higher for the three months ended March 31, 2024 due to the addition of various state taxes that are being assessed as CCBX activities and employees expand into other states.

Segment Information

Based on the criteria of ASC 280, Segment Reporting, we have identified three segments: the community bank, CCBX and treasury & administration. The primary focus of the community bank is on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has 21 partners as of March 31, 2024, 19 that are active with two more currently in the testing or implementation stage as of March 31, 2024. The treasury & administration segment includes treasury management, overall administration and all other aspects of the Company.

The Company's reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The Company continues to evaluate its methodology on allocating items to the Company's various segments to support strategic business decisions by the Company's executive leadership. The difference in total loans receivable and total deposits in the community bank and CCBX segments is recorded on the balance sheet of each segment as an intrabank asset or intrabank liability, with the treasury & administration segment as the offset to those entries. Income and expenses that are specific to a segment are directly posted to each segment. Additionally, certain indirect expenses are allocated to each segment utilizing various metrics, such as number of employees, utilization of space, and allocations based on loan and deposit balances. We have implemented a transfer pricing process that credits or charges the community bank and CCBX segments with intrabank interest income or expense

for the difference in average loans and average deposits, with the treasury & administration segment as the offset for those entries. The accounting policies of the segments are the same as those described in "*Note 1 – Description of Business and Summary of Significant Accounting Policies*" in the accompanying notes to the consolidated financial statements included in the Company's most recently filed 10-K report.

The following table presents summary financial information for each segment for the periods indicated:

	March 31, 2024				December 31, 2023			
(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank	CCBX	Treasury & Administration	Consolidated
Assets								
Cash and due from banks	$ 4,711	$ 10,358	$ 500,059	$ 515,128	$ 4,702	$ 9,601	$ 468,825	$ 483,128
Intrabank asset	—	690,310	(690,310)	—	—	653,178	(653,178)	—
Securities	—	—	50,090	50,090	—	—	150,364	150,364
Loans held for sale	—	797	—	797	—	—	—	—
Total loans receivable	1,883,282	1,316,272	—	3,199,554	1,830,154	1,195,938	—	3,026,092
Allowance for credit losses	(21,384)	(117,874)	—	(139,258)	(21,595)	(95,363)	—	(116,958)
All other assets	29,643	165,796	43,508	238,947	30,169	136,931	43,640	210,740
Total assets	$ 1,896,252	$ 2,065,659	$ (96,653)	$ 3,865,258	$ 1,843,430	$ 1,900,285	$ 9,651	$ 3,753,366
Liabilities								
Total deposits	$ 1,434,030	$ 2,028,949	$ —	$ 3,462,979	$ 1,497,601	$ 1,862,762	$ —	$ 3,360,363
Total borrowings	—	—	47,771	47,771	—	—	47,734	47,734
Intrabank liability	452,861	—	(452,861)	—	338,614	—	(338,614)	—
All other liabilities	9,361	36,710	4,728	50,799	7,215	37,523	5,553	50,291
Total liabilities	$ 1,896,252	$ 2,065,659	$ (400,362)	$ 3,561,549	$ 1,843,430	$ 1,900,285	$ (285,327)	$ 3,458,388

Community bank total assets as of March 31, 2024 increased $52.8 million, or 2.9%, to $1.90 billion, compared to $1.84 billion as of December 31, 2023. Loans receivable net of deferred fees for the community bank segment increased $53.1 million, or 2.9%, to $1.88 billion as of March 31, 2024, compared to $1.83 billion as of December 31, 2023. The increase in community bank loans receivable is the result of gross loan growth of $53.2 million. Total community bank deposits decreased $63.6 million, or 4.24%, to $1.43 billion, as of March 31, 2024, compared to $1.50 billion as of December 31, 2023. The decrease in community bank deposits was a result of pricing disciplines as some customer sought higher rate products elsewhere. Additional exception pricing tactics were added as a strategy at the end of the first quarter of 2024 to retain deposits and more effectively compete in the market. Our cost of deposits for the community bank was 1.66% for the three months ended March 31, 2024.

CCBX total assets as of March 31, 2024 increased $165.4 million, or 8.7%, to $2.07 billion, compared to $1.90 billion as of December 31, 2023. During the three months ended March 31, 2024, $101.3 million in CCBX loans were transferred to loans held for sale, with $100.5 million in loans sold and $797,000 loans remaining in loans held for sale as of March 31, 2024 and no loans held for sale as of December 31, 2023. The Company sells CCBX loans to manage loan portfolio size by partner and by loan category, with such limits established and documented in the relevant partner agreements. Total CCBX loans receivable increased $120.3 million, or 10.1%, to $1.32 billion as of March 31, 2024, compared to $1.20 billion as of December 31, 2023. The increase in loans receivable is the result of increased activity with CCBX partners. After deliberately reducing our other consumer and other loans portfolio during the third and fourth quarters of 2023 in an effort to optimize our loan portfolio, we are now working to build back the CCBX portfolio with new loans, subject to enhanced credit standards, with lower potential risk of credit deterioration and are more aligned with our long term objectives. CCBX allowance for credit losses increased to $117.9 million as of March 31, 2024, compared to $95.4 million as of December 31, 2023 as a result of increased loss rates and balances on CCBX loans which has increased the allowance calculation/requirement. CCBX partner agreements provide for, and the Company has collected in full, credit enhancements that cover the $57.2 million in net charge-offs on CCBX loans for the three months ended March 31, 2024. Total CCBX deposits increased $166.2 million, or 8.9%, to $2.03 billion, compared to $1.86 billion as of December 31, 2023 as a result of growth within the CCBX relationships. This does not include an additional $92.2 million in CCBX deposits that were transferred off balance sheet to provide for increased FDIC insurance coverage to certain customers, compared to $69.4 million at of December 31, 2023.

Treasury & administration total assets as of March 31, 2024 decreased $106.3 million, or 1,101.5%, to $(96.7) million, compared to $9.7 million as of December 31, 2023. Total securities decreased $100.3 million, or 66.7%, to $50.1 million as of March 31, 2024, compared to $150.4 million as of December 31, 2023, as a result of maturing AFS securities. Total borrowings were $47.8 million as of March 31, 2024 and $47.7 million as of December 31, 2023.

The following tables present summary financial information for each segment for the periods indicated:

	Three Months Ended March 31, 2024				Three Months Ended March 31, 2023			
(dollars in thousands; unaudited)	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank	CCBX	Treasury & Administration	Consolidated
INTEREST INCOME AND EXPENSE								
Interest income	$ 30,052	$ 54,569	$ 5,851	$ 90,472	$ 24,211	$ 42,220	$ 3,680	$ 70,111
Interest (expense) income intrabank transfer	(5,599)	8,151	(2,552)	—	(1,079)	2,652	(1,573)	—
Interest expense	6,013	22,854	669	29,536	2,534	12,424	662	15,620
Net interest income	18,440	39,866	2,630	60,936	20,598	32,448	1,445	54,491
(Recapture)/Provision for credit losses - loans	(199)	79,717	—	79,518	428	43,116	—	43,544
Provision for unfunded commitments	2,209	1,431	—	3,640	137	16	—	153
Net interest income/(expense) after provision for credit losses - loans and unfunded commitments	16,430	(41,282)	2,630	(22,222)	20,033	(10,684)	1,445	10,794
NONINTEREST INCOME								
Deposit service charges and fees	896	12	—	908	899	11	—	910
Other income	285	68	138	491	191	133	137	461
BaaS program income	—	4,825	—	4,825	—	3,575	—	3,575
BaaS indemnification income	—	80,731	—	80,731	—	44,361	—	44,361
Noninterest income [1]	1,181	85,636	138	86,955	1,090	48,080	137	49,307
NONINTEREST EXPENSE								
Salaries and employee benefits	6,045	7,351	4,588	17,984	5,854	5,383	4,338	15,575
Occupancy	844	101	573	1,518	1,034	86	99	1,219
Data processing and software licenses	1,025	903	964	2,892	919	535	386	1,840
Legal and professional expenses	18	2,255	1,399	3,672	254	1,768	1,040	3,062
Other expense	1,035	1,578	1,579	4,192	1,031	1,114	1,269	3,414
BaaS loan expense	—	24,837	—	24,837	—	17,554	—	17,554
BaaS fraud expense	—	923	—	923	—	1,999	—	1,999
Total noninterest expense	8,967	37,948	9,103	56,018	9,092	28,439	7,132	44,663
Net income/(loss) before income taxes	8,644	6,406	(6,335)	8,715	12,031	8,957	(5,550)	15,438
Income taxes	1,822	1,581	(1,488)	1,915	2,375	1,768	(1,096)	3,047
Net income/(loss)	$ 6,822	$ 4,825	$ (4,847)	$ 6,800	$ 9,656	$ 7,189	$ (4,454)	$ 12,391

(1) For the three months ended March 31, 2024, CCBX noninterest income includes credit enhancements of $79.8 million, fraud enhancements of $923,000, and BaaS program income of $4.8 million. For the three months ended March 31, 2023, CCBX noninterest income includes credit enhancements of $42.4 million, fraud enhancements of $2.0 million and BaaS program income of $3.6 million.

Comparison of the quarter ended March 31, 2024 to the comparable quarter in the prior year

Community Bank

Net interest income before intrabank interest expense for the community bank was $30.1 million for the quarter ended March 31, 2024, an increase of $5.8 million, or 24.1%, compared to $24.2 million for the quarter ended March 31, 2023. The increase in net interest income is largely due to increased yield on loans resulting from loan growth and higher interest rates. As a result of the community bank having higher average loans than deposits for the quarter ended March 31, 2024 compared to the quarter ended March 31, 2023, intrabank interest expense for the community bank was $5.6 million for the quarter ended March 31, 2024, compared to intrabank interest expense of $1.1 million for the quarter ended March 31, 2023. There was a provision recapture for credit losses - loans for the community bank of $199,000 for the quarter ended March 31, 2024, compared to a provision of $428,000 for the quarter ended March 31, 2023. Net charge-offs to average loans for the community bank segment have remained consistently low and were 0.00% for the quarter ended March 31, 2024 and 0.01% for the quarter ended March 31, 2023. Noninterest income for the community bank was $1.2 million, for the quarter ended March 31, 2024, an increase of $91,000, or 8.3%, compared to $1.1 million for the quarter ended March 31, 2023. Noninterest expenses for the community bank decreased $125,000, or 1.4%, to $9.0 million as of March 31, 2024, compared to $9.1 million as of March 31, 2023. The increase in noninterest expense is largely due to increased salaries and employee benefits as a result of growth, higher software licenses maintenance and subscription costs related to new reporting software that helps monitor and assess risk and to automate and create efficiencies in reporting, increased legal and professional fees related to data and risk management, building out our infrastructure and increased consulting expenses for projects and enhanced monitoring and other expense increases related to growth.

CCBX

Net interest income for CCBX before intrabank interest income was $54.6 million for the quarter ended March 31, 2024, an increase of $12.3 million, or 29.2%, compared to $42.2 million for the quarter ended March 31, 2023. The increase in net interest income is due to loan growth and higher interest rates from active CCBX relationships. During the quarter ended March 31, 2024 we sold $100.5 million in higher yielding CCBX loans that have a greater potential for credit deterioration in an effort to optimize our CCBX loan portfolio by replacing loans sold with higher quality originated loans with enhanced credit standards. The impact of these sales and the changes we are making in an effort to optimize and strengthen the balance sheet are expected to be reflected in our earnings in future periods. We expect to see lower net income in the short term with lower loan yields and compressed margins but we will work to continue growing the CCBX portfolio with loans that we believe will strengthen the balance sheet and provide for long term stability and profitability. As a result of having higher average deposits than loans for the quarter ended March 31, 2024 compared to the quarter ended March 31, 2023 intrabank interest income for CCBX was $8.2 million for the quarter ended March 31, 2024, compared to $2.7 million for the quarter ended March 31, 2023. Provision for credit losses - loans was $79.7 million as a result of loan origination growth and as a result of increased loss rates and balances on CCBX loans which has impacted the allowance calculation for the quarter ended March 31, 2024, compared to $43.1 million for the quarter ended March 31, 2023. CCBX partner agreements provide for, and the Company has collected in full, credit enhancements that cover the $57.2 million in net charge-offs on CCBX loans for the quarter ended March 31, 2024. The $79.7 million provision on CCBX loans includes $78.5 million for partner loans with credit enhancement on them and $1.3 million on CCBX loans that the Company is responsible for. In accordance with the program agreement, the Company was responsible for credit losses on approximately 10% of a $317.8 million loan portfolio, or $32.0 million in partner loans at March 31, 2024. Effective April 1, 2024, the agreement was modified and the Company is now responsible for 5% of the credit losses on this portfolio. Noninterest income for CCBX was $85.6 million for the quarter ended March 31, 2024, an increase of $37.6 million, or 78.1%, compared to $48.1 million for the quarter ended March 31, 2023, due to an increase of $37.4 million in BaaS credit enhancements to establish a credit enhancement asset for future credit losses due from our CCBX partners, $1.1 million decrease in BaaS fraud enhancements and $1,250,000 in BaaS program income, which was the result of increased activity with broker dealers and digital financial service providers. Noninterest expenses for CCBX increased $9.5 million, or 33.4%, to $37.9 million as of March 31, 2024, compared to $28.4 million as of March 31, 2023. The increase in noninterest expense is largely due to growth from active CCBX relationships resulting in an increase in BaaS loan expense, BaaS fraud expense from increased CCBX loan originations and increased salaries and benefits, for the quarter ended March 31, 2024, compared to the quarter ended March 31, 2023. For more information on the accounting for BaaS income and expenses see the section titled *"CCBX – BaaS Reporting Information."*

Treasury & Administration

Net interest income before intrabank interest expense for treasury & administration was $5.9 million for the quarter ended March 31, 2024, an increase of $2.2 million, or 59.0%, compared to $3.7 million for the quarter ended March 31, 2023, as a result of increased interest rates. Noninterest income increase $1,000, or 0.7%, to $138,000 for the quarter ended March 31, 2024, compared to $137,000 for the quarter ended March 31, 2023. Noninterest expense was $9.1 million for the quarter ended March 31, 2024 and $7.1 million for the quarter ended March 31, 2023.

Financial Condition

Our total assets increased $111.9 million, or 3.0%, to $3.87 billion at March 31, 2024 from $3.75 billion at December 31, 2023. The increase is primarily the result of $173.5 million increase in loans receivable during the three months ended March 31, 2024.

Loans Held For Sale

During the quarter ended March 31, 2024, $101.3 million in CCBX loans were transferred to loans held for sale, with $100.5 million in loans sold. As of March 31, 2024 and December 31, 2023 there were $797,000 and no loans, respectively, in loans held for sale.

Loan Portfolio

Our primary source of income is derived through interest earned on loans. A substantial portion of our loan portfolio consists of commercial real estate loans and commercial and industrial loans in the Puget Sound region. Our consumer and other loans also represent a significant portion of our loan portfolio with the growth of our CCBX segment. Our loan portfolio represents the highest yielding component of our earning assets.

As of March 31, 2024, loans receivable totaled $3.20 billion, an increase of $173.5 million, or 5.7%, compared to December 31, 2023. Total loans receivable is net of $7.5 million in net deferred origination fees. The increase includes CCBX loan growth of $120.4 million, or 10.1%, and community bank loan growth of $53.2 million, or 2.9%.

Loans as a percentage of deposits were 92.4% as of March 31, 2024, compared to 90.1% as of December 31, 2023. We remain focused on serving our communities and markets by growing loans and funding those loans with customer deposits.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of March 31, 2024		As of December 31, 2023	
(dollars in thousands; unaudited)	Amount	Percent	Amount	Percent
Commercial and industrial loans:				
Capital call lines	$ 135,671	4.2 %	$ 87,494	2.9 %
All other commercial & industrial loans	201,555	6.3	203,800	6.7
Total commercial and industrial loans:	337,226	10.5	291,294	9.6
Real estate loans:				
Construction, land and land development	160,862	5.0	157,100	5.2
Residential real estate	496,305	15.5	463,426	15.3
Commercial real estate	1,342,489	41.9	1,303,533	43.0
Consumer and other loans	870,134	27.1	818,039	26.9
Gross loans receivable	3,207,016	100.0 %	3,033,392	100.0 %
Net deferred origination fees	(7,462)		(7,300)	
Loans receivable	$ 3,199,554		$ 3,026,092	
Loan Yield [1]	10.85 %		10.71 %	

[1] Loan yield is annualized for the three months ended for each period presented and includes loans held for sale and nonaccrual loans.

The following tables detail the loans by segment which are included in the total loan portfolio table above:

Community Bank	**As of**			
	March 31, 2024		**December 31, 2023**	
(dollars in thousands; unaudited)	**Balance**	**% to Total**	**Balance**	**% to Total**
Commercial and industrial loans:				
Commercial and industrial loans	$ 154,395	8.2 %	$ 149,502	8.2 %
Real estate loans:				
Construction, land and land development loans	160,862	8.5	157,100	8.5
Residential real estate loans	231,157	12.2	225,391	12.3
Commercial real estate loans	1,342,489	71.0	1,303,533	70.9
Consumer and other loans:				
Other consumer and other loans	1,447	0.1	1,628	0.1
Gross Community Bank loans receivable	1,890,350	100.0 %	1,837,154	100.0 %
Net deferred origination fees	(7,068)		(7,000)	
Loans receivable	$ 1,883,282		$ 1,830,154	
Loan Yield[1]	6.46 %		6.32 %	

(1) Loan yield is annualized for the three months ended for each period presented and includes loans held for sale and nonaccrual loans.

CCBX	**As of**			
	March 31, 2024		**December 31, 2023**	
(dollars in thousands; unaudited)	**Balance**	**% to Total**	**Balance**	**% to Total**
Commercial and industrial loans:				
Capital call lines	$ 135,671	10.3 %	$ 87,494	7.3 %
All other commercial & industrial loans	47,160	3.6	54,298	4.5
Real estate loans:				
Residential real estate loans	265,148	20.1	238,035	19.9
Consumer and other loans:				
Credit cards	505,706	38.4	505,837	42.3
Other consumer and other loans	362,981	27.6	310,574	26.0
Gross CCBX loans receivable	1,316,666	100.0 %	1,196,238	100.0 %
Net deferred origination (fees) costs	(394)		(300)	
Loans receivable	$ 1,316,272		$ 1,195,938	
Loan Yield - CCBX [1][2]	17.34 %		17.36 %	

(1) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. Net BaaS loan income is a non-GAAP measure. See the reconciliation of non-GAAP measures set forth in the section titled *"GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures"* for the impact of BaaS loan expense on CCBX yield.

(2) Loan yield is annualized for the three months ended for each period presented and includes loans held for sale and nonaccrual loans.

Commercial and Industrial Loans. Commercial and industrial loans increased $45.9 million, or 15.8%, to $337.2 million as of March 31, 2024, from $291.3 million as of December 31, 2023. The increase in commercial and industrial loans receivable over December 31, 2023 was due to an increase of $48.2 million in capital call lines partially offset by a $2.2 million decrease in other commercial and industrial loans. Included in the commercial and industrial loan balance is $135.7 million and $87.5 million in capital call lines resulting from relationships with our CCBX partners as of March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024, there were $47.2 million in CCBX other commercial loans, compared to $54.3 million at December 31, 2023.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. These loans are primarily made based on the borrower's ability to service the debt from income.

Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable, inventory or equipment, and we generally obtain personal guarantees on these loans. Commercial and industrial loans includes $48.6 million in loans to financial institutions as of March 31, 2024 and December 31, 2023.

Construction, Land and Land Development Loans. Construction, land and land development loans increased $3.8 million, or 2.4%, to $160.9 million as of March 31, 2024, from $157.1 million as of December 31, 2023. The increase is attributed to some new construction and development projects.

Unfunded loan commitments for construction, land and land development loans were $91.2 million at March 31, 2024, compared to $113.5 million at December 31, 2023. Although we have seen a strong commercial and residential real estate market in the Puget Sound region thus far in 2024, the economic environment is continuously changing with bank failures, inflation, higher interest rates, global unrest, the war in Ukraine, conflicts in the Middle East, political uncertainty, and trade issues that have resulted in some economic uncertainty and slowing in construction lending.

Construction, land and land development loans are comprised of loans to fund construction, land acquisition and land development construction. The properties securing these loans are primarily located in the Puget Sound region and are comprised of both residential and commercial properties, including owner occupied properties and investor properties. As of March 31, 2024, construction, land and land development loans included $102.1 million in commercial construction loans, $8.2 million in undeveloped land loans, $28.8 million in residential construction loans and $21.8 million in other construction, land and land development loans, compared to $81.5 million in commercial construction loans, $7.9 million in undeveloped land loans, $34.2 million in residential construction loans and $33.5 million in other construction, land and land development loans as of December 31, 2023.

Residential Real Estate Loans. Our one-to-four family residential real estate loans increased $32.9 million, or 7.1%, to $496.3 million as of March 31, 2024, from $463.4 million as of December 31, 2023 due to an increase of $5.8 million in community bank loans combined with an increase of $27.1 million in CCBX loans.

As of March 31, 2024, there were $265.1 million in CCBX home equity loans included in residential real estate, compared to $238.0 million at December 31, 2023, as a result of increased activity. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card.

In the past, we have purchased residential mortgages originated through other financial institutions to hold for investment for purposes of diversifying our residential mortgage loan portfolio, meeting certain regulatory requirements and increasing our interest income. We last purchased residential mortgage loans in 2018. As of March 31, 2024 and December 31, 2023, we held $8.1 million in purchased residential real estate mortgage loans. These loans purchased typically have a fixed rate with a term of 15 to 30 years and are collateralized by one-to-four family residential real estate. We have a defined set of credit guidelines that we use when evaluating these loans. Although purchased loans were originated and underwritten by another institution, our mortgage, credit, and compliance departments conduct an independent review of each underlying loan that includes re-underwriting each of these loans to our credit and compliance standards.

Like our commercial real estate loans, our residential real estate loans are secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of property pledged as collateral on loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

Commercial Real Estate Loans. Commercial real estate loans increased $39.0 million, or 3.0%, to $1.34 billion as of March 31, 2024, from $1.30 billion as of December 31, 2023.

These increases, which occurred across the various segments of our portfolio, were due to our commitment to grow the portfolio in the Puget Sound region. We actively seek commercial real estate loans in our markets and our lenders are experienced in competing for these loans and managing these relationships.

We make commercial mortgage loans collateralized by owner-occupied and non-owner-occupied real estate, as well as multi-family residential loans. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as manufacturing and processing facilities, business parks, warehouses, retail centers, convenience stores, hotels and motels, low rise office buildings, mixed-use residential and commercial, and other properties. We originate both fixed- and adjustable-rate loans with terms up to 20 years. Fixed-rate loans typically amortize over a 10 to 25 year period with balloon payments due at the end of five to ten years. Adjustable-rate loans are generally based on the prime rate and adjust with the prime rate or are based on term equivalent FHLB rates. At March 31, 2024, approximately 35.9% of the commercial real estate loan portfolio consisted of fixed rate loans. Commercial real estate loans represented 41.9% of our loan portfolio at March 31, 2024 and are historically our largest source of revenue. As of March 31, 2024, we held $42.0 million in purchased commercial real estate loans, compared to $43.0 million at December 31, 2023. Our credit administration team has substantial experience in underwriting, managing, monitoring and working out commercial real estate loans, and remains diligent in communicating and proactively working with borrowers to help mitigate potential credit deterioration.

Consumer and Other. Consumer and other loans increased $52.1 million, or 6.4%, to $870.1 million, from $818.0 million as of December 31, 2023, as a result of growth in CCBX loans originated through our partners. We sold $100.5 million in CCBX loans during the quarter ended March 31, 2024. We continue to monitor and manage the CCBX loan portfolio, and will continue to sell CCBX loans in the coming months as we work to strengthen the balance sheet by optimizing our CCBX portfolio through new partners, products and building on our existing relationships.

CCBX consumer loans totaled $868.7 million as of March 31, 2024, compared to $816.4 million at December 31, 2023. CCBX consumer loans include installment loans, credit cards, lines of credit and other loans. Our community bank consumer and other loans totaled $1.4 million as of March 31, 2024, compared to $1.6 million at December 31, 2023 and are comprised of personal lines of credit, automobile, boat, and recreational vehicle loans, and secured term loans.

Industry Exposure and Categories of Loans

We have a diversified loan portfolio, representing a wide variety of industries. Our major categories of loans are commercial real estate, consumer and other loans, residential real estate, commercial and industrial, and construction, land and land development loans. Together they represent $3.21 billion in outstanding loan balances. When combined with $2.19 billion in unused commitments the total of these categories is $5.40 billion. However, total exposure on CCBX loans is subject to portfolio and partner maximum limits. See "Material Cash Requirements and Capital Resources" for maximum limits on CCBX loans by category.

The following table summarizes our community bank loan commitments by industry for our commercial real estate portfolio as of March 31, 2024:

(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
Community bank commercial real estate loans						
Apartments	$ 355,965	$ 8,769	$ 364,734	6.7 %	$ 3,423	104
Hotel/Motel	169,929	1,673	171,602	3.2	6,536	26
Convenience Store	134,175	985	135,160	2.5	2,236	60
Mixed use	95,425	3,403	98,828	1.8	1,097	87
Warehouse	114,512	3,318	117,830	2.2	1,909	60
Office	124,202	4,106	128,308	2.4	1,411	88
Retail	105,188	668	105,856	2.0	1,002	105
Mini Storage	69,655	22,385	92,040	1.7	3,166	22
Strip Mall	44,430	—	44,430	0.8	6,347	7
Manufacturing	35,655	1,512	37,167	0.7	1,150	31
Groups < 0.70% of total	93,353	4,882	98,235	1.8	1,138	82
Total	$ 1,342,489	$ 51,701	$ 1,394,190	25.8 %	$ 1,998	672

As illustrated in the table below, our CCBX partners originate a large number of mostly smaller dollar loans, resulting in an average consumer loan balance of just $1,200.

The following table summarizes our loan commitments by category for our consumer and other loan portfolio as of March 31, 2024:

(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment [1]	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
CCBX consumer loans						
Credit cards	$ 505,706	$ 932,956	$ 1,438,662	26.7 %	$ 1.6	314,989
Installment loans	356,202	174	356,376	6.6	1.3	280,929
Lines of credit	5,523	4,501	10,024	0.2	0.1	108,988
Other loans	1,256	—	1,256	0.0	0.1	11,810
Community bank consumer loans						
Installment loans	1,173	—	1,173	0.0	61.7	19
Lines of credit	191	517	708	0.0	5.2	37
Other loans	83	—	83	0.0	0.3	315
Total	$ 870,134	$ 938,148	$ 1,808,282	33.5 %	$ 1.2	717,087

[1] Total exposure on CCBX loans is subject to portfolio maximum limits. See *"Material Cash Requirements and Capital Resources"* for maximum limits on CCBX loans by category.

The following table summarizes our loan commitments by category for our residential real estate portfolio as of March 31, 2024:

(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Exposure [1]	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
CCBX residential real estate loans						
Home equity line of credit	$ 265,148	$ 434,672	$ 699,820	13.0 %	$ 26	10,232
Community bank residential real estate loans						
Closed end, secured by first liens	198,543	3,220	201,763	3.7	609	326
Home equity line of credit	23,449	43,056	66,505	1.2	105	223
Closed end, second liens	9,165	736	9,901	0.2	306	30
Total	$ 496,305	$ 481,684	$ 977,989	18.1 %	$ 46	10,811

[1] Total exposure on CCBX loans is subject to portfolio maximum limits. See *"Material Cash Requirements and Capital Resources"* for maximum limits on CCBX loans by category.

The following table summarizes our loan commitments by industry for our commercial and industrial loan portfolio as of March 31, 2024:

(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment [1]	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
Capital Call Lines	$ 135,671	$ 543,913	$ 679,584	12.6 %	$ 881	154
Retail	44,565	6,036	50,601	0.9	17	2,685
Construction/Contractor Services	29,370	30,305	59,675	1.1	150	196
Financial Institutions	48,648	—	48,648	0.9	4,054	12
Medical / Dental / Other Care	20,600	3,602	24,202	0.5	981	21
Manufacturing	7,485	4,894	12,379	0.2	183	41
Groups < 0.20% of total	50,887	40,092	90,979	1.7	57	891
Total	$ 337,226	$ 628,842	$ 966,068	17.9 %	$ 84	4,000

[1] Total exposure on CCBX loans is subject to portfolio maximum limits. See *"Material Cash Requirements and Capital Resources"* for maximum limits on CCBX loans by category.

The following table details our community bank loan commitments by category for our construction, land and land development loan portfolio as of March 31, 2024:

(dollars in thousands; unaudited)	Outstanding Balance	Available Loan Commitments	Total Outstanding Balance & Available Commitment	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan Balance	Number of Loans
Community bank construction, land and land development loans						
Commercial construction	$ 102,099	$ 73,803	$ 175,902	3.3 %	$ 6,381	16
Undeveloped land loans	8,190	4,031	12,221	0.2	585	14
Residential construction	28,751	8,652	37,403	0.7	2,054	14
Developed land loans	14,307	1,849	16,156	0.3	715	20
Land development	7,515	2,846	10,361	0.2	626	12
Total	$ 160,862	$ 91,181	$ 252,043	4.7 %	$ 2,117	76

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by applicable regulations. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. Installment (closed end) consumer loans and revolving (open-ended loans, such as credit cards) originated through CCBX partners continue to accrue interest until they are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards). These consumer loans are reported out as substandard loans, 90+ days past due and still accruing. As a result of the type of loans (primarily consumer loans) originated through our CCBX partners, we anticipate that balances 90 days past due or more and still accruing will increase as those loans grow.

When loans are placed on nonaccrual status, all unpaid accrued interest is reversed from income and all interest accruals are stopped. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal balance. Loans are returned to accrual status if we believe that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual status. We define nonperforming loans as loans on nonaccrual status and accruing loans 90 days or more past due. Nonperforming assets also include other real estate owned and repossessed assets.

We believe our lending practices and active approach to managing nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have procedures in place to assist us in maintaining the overall credit quality of our loan portfolio. We have established underwriting guidelines, concentration limits and we also monitor our delinquency levels for any negative or adverse trends. We actively manage problem assets to reduce our risk for loss.

We had $54.9 million in nonperforming assets as of March 31, 2024, compared to $53.8 million as of December 31, 2023. This includes $46.9 million in CCBX loans more than 90 days past due and still accruing interest as of March 31, 2024, compared to $46.5 million at December 31, 2023. All of our nonperforming assets were nonperforming loans as of March 31, 2024 and December 31, 2023. The increase in nonperforming assets was due to a $399,000 increase in CCBX partner loans that are 90 days or more past due and still accruing interest. Additionally, community bank nonaccrual loans increased $628,000 during the three months ended March 31, 2024 to $7.9 million, with the addition of two loans partially offset by the payoff of two nonaccrual loans. Even though our balance of nonperforming assets increased, the overall percentage of nonperforming loans decreased. Our nonperforming loans to loans receivable ratio was 1.71% at March 31, 2024, compared to 1.78% at December 31, 2023.

Our community bank credit quality remains strong, as demonstrated by the low level of community bank charge-offs and nonperforming loan balance for the three months ended March 31, 2024. CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for credit losses. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by indemnifying or reimbursing incurred losses, when accruing consumer loans originated through CCBX partners are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards).

The following table presents information regarding nonperforming assets at the dates indicated:

(dollars in thousands; unaudited)	As of March 31, 2024	As of December 31, 2023
Nonaccrual loans:		
Real estate loans:		
Residential real estate	$ 212	$ 170
Commercial real estate	7,731	7,145
Total nonaccrual loans	7,943	7,315
Accruing loans past due 90 days or more:		
Commercial & industrial loans	1,793	2,086
Real estate loans:		
Residential real estate loans	1,796	1,115
Consumer and other loans:		
Credit cards	37,603	34,835
Other consumer and other loans	5,731	8,488
Total accruing loans past due 90 days or more	46,923	46,524
Total nonperforming loans	54,866	53,839
Real estate owned	—	—
Repossessed assets	—	—
Total nonperforming assets	$ 54,866	$ 53,839
Total nonaccrual loans to loans receivable	0.25 %	0.24 %
Total nonperforming loans to loans receivable	1.71 %	1.78 %
Total nonperforming assets to total assets	1.42 %	1.43 %

The following tables detail nonperforming assets by segment which are included in the total nonperforming assets table above:

Community Bank	As of	
(dollars in thousands; unaudited)	March 31, 2024	December 31, 2023
Nonaccrual loans:		
Real estate:		
Residential real estate	$ 212	$ 170
Commercial real estate	7,731	7,145
Total nonaccrual loans	7,943	7,315
Accruing loans past due 90 days or more:		
Total accruing loans past due 90 days or more	—	—
Total nonperforming loans	7,943	7,315
Other real estate owned	—	—
Repossessed assets	—	—
Total nonperforming assets	$ 7,943	$ 7,315
Total nonperforming community bank loans to total loans receivable	0.25 %	0.24 %

CCBX	As of	
(dollars in thousands; unaudited)	March 31, 2024	December 31, 2023
Nonaccrual loans	$ —	$ —
Accruing loans past due 90 days or more:		
Commercial & industrial loans	1,793	2,086
Real estate loans:		
Residential real estate loans	1,796	1,115
Consumer and other loans:		
Credit cards	37,603	34,835
Other consumer and other loans	5,731	8,488
Total accruing loans past due 90 days or more	46,923	46,524
Total nonperforming loans	46,923	46,524
Other real estate owned	—	—
Repossessed assets	—	—
Total nonperforming assets	$ 46,923	$ 46,524
Total nonperforming CCBX loans to total loans receivable	1.47 %	1.54 %

As of March 31, 2024, $44.3 million of the $46.9 million in nonperforming CCBX loans were covered by CCBX partner credit enhancements. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by indemnifying or reimbursing incurred losses. Under the agreement, the CCBX partner will indemnify or reimburse the Bank for its loss/charge-off on these loans.

Allowance for credit losses

The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the pool and whether it needs to evaluate the allowance on an individual basis. The Bank must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Bank cannot extend the contractual term of the loan for expected extensions, renewals, and modifications, unless the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Bank. Because expected credit losses are estimated over the contractual life adjusted for estimated prepayments, determination of the life of the loan may significantly affect the ACL. The Company has chosen to segment its portfolio consistent with the manner in which it manages the risk of the type of credit.

- Community Bank Portfolio: The ACL calculation is derived for loan segments utilizing loan level information and relevant information from internal and external sources related to past events and current conditions. In addition, the Company incorporates a reasonable and supportable forecast.

- CCBX Portfolio: The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the risk inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio.

Also included in the ACL are qualitative reserves to cover losses that are expected, but in the Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower's financial condition, credit rating and the volume and severity of past due loans and non-accrual loans. Based on this analysis, the Company records a provision for credit losses to maintain the allowance at appropriate levels.

As of March 31, 2024, the allowance for credit losses totaled $139.3 million, or 4.35% of total loans. As of December 31, 2023, the allowance for credit losses totaled $117.0 million, or 3.86% of total loans.

The increase in the Company's allowance for credit losses for the quarter ended March 31, 2024 compared to December 31, 2023, is largely related to the provision for CCBX partner loans. During the three months ended March 31, 2024, a $79.7 million provision for credit losses - loans was recorded for CCBX partner loans based on management's analysis. The factors used in management's analysis for community bank credit losses indicated that a recapture for credit losses - loans of $199,000 was needed for the three months ended March 31, 2024. The economic environment is continuously changing with bank failures, inflation, higher interest rates, global unrest, the war in Ukraine, conflicts in the Middle East, political uncertainty, including a potential shutdown of the U.S. government, and trade issues that have resulted in some economic uncertainty. As described above, CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for credit losses.

Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by indemnifying and/or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's legal commitment to indemnify or reimburse losses. The credit enhancement asset is relieved as credit enhancement payments and recoveries are received from the CCBX partner or taken from the partner's cash reserve account. BaaS fraud includes noncredit fraud losses on loans and deposits originated through partners. Agreements with our CCBX partners also provide protection to the Bank from fraud by indemnifying and/or reimbursing incurred fraud losses. Fraud losses are recorded when incurred as losses in noninterest expense, and the enhancement received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. CCBX partners also pledge a cash reserve account at the Bank which the Bank can collect from when losses occur. That account is then replenished by the partner on a regular interval. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill their contracted obligations to replenish their cash reserve account then the Bank would be exposed to additional losses, as a result of this counterparty risk. If a CCBX partner does not replenish their cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit enhancements. The Bank would write-off any remaining credit enhancement asset from the CCBX partner but would retain the full yield and any fee income on the loan portfolio going forward, and BaaS loan expense would decrease once default occurred and payments to the CCBX partner were stopped.

The following table presents, as of and for the periods indicated, net charge-off information by segment:

	Three Months Ended					
	March 31, 2024			March 31, 2023		
(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	$ 15	$ 58,979	$ 58,994	$ 50	$ 34,117	$ 34,167
Gross recoveries	(4)	(1,772)	(1,776)	(5)	(1,860)	(1,865)
Net charge-offs	$ 11	$ 57,207	$ 57,218	$ 45	$ 32,257	$ 32,302
Net charge-offs to average loans [1]	0.00 %	18.18 %	7.34 %	0.01 %	12.29 %	4.84 %
% of CCBX charge-offs covered by credit enhancement		96.3 %			98.2 %	

[1] Annualized calculations shown for periods presented.

The following table presents, as of and for the periods indicated, an analysis of the allowance for credit losses and other related data:

(dollars in thousands; unaudited)	As of or for the Three Months Ended March 31, 2024	2023
Allowance at beginning of period	$ 116,958	$ 74,029
Impact of adopting CECL (ASC 326)	—	3,852
Provision for credit losses	79,518	43,544
Charge-offs:		
Commercial and industrial loans	4,697	776
Residential real estate	1,143	737
Consumer and other	53,154	32,654
Total charge-offs	58,994	34,167
Recoveries:		
Commercial and industrial loans	199	3
Residential real estate	2	—
Consumer and other	1,575	1,862
Total recoveries	1,776	1,865
Net charge-offs	57,218	32,302
Allowance at end of period	$ 139,258	$ 89,123
Allowance for credit losses to nonaccrual loans	1753.22 %	1276.47 %
Allowance to nonperforming loans	253.81 %	282.54 %
Allowance to loans receivable	4.35 %	3.14 %

The allowance for credit losses to nonaccrual loans ratio increased as of March 31, 2024, compared to March 31, 2023 as a result of an increase of $961,000 in nonaccrual community bank loans, combined with an increase of $50.1 million in the allowance for credit losses. The increase in the allowance for credit losses for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, is largely related to the increase in the allowance for loans originated through our CCBX partners. CCBX partner agreements provide for credit enhancements for the $57.2 million in net charge-offs on CCBX loans for the three months ended March 31, 2024. At March 31, 2024, the allowance for credit losses for CCBX partner loans totaled $117.9 million, compared to $68.4 million at March 31, 2023.

The following table presents the loans receivable and allowance for credit losses by segment for the periods indicated:

	As of March 31, 2024			As of December 31, 2023		
(dollars in thousands; unaudited)	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Loans receivable	$ 1,883,282	$ 1,316,272	$ 3,199,554	$ 1,830,154	$ 1,195,938	$ 3,026,092
Allowance for credit losses	(21,384)	(117,874)	(139,258)	(21,595)	(95,363)	(116,958)
Allowance for credit losses to total loans receivable	1.14 %	8.96 %	4.35 %	1.18 %	7.97 %	3.86 %

Although we believe that we have established our allowance for credit losses in accordance with GAAP and that the allowance for credit losses was adequate to provide for expected losses in the portfolio at all times shown above, future provisions for credit losses will be subject to ongoing evaluations of the risks in our loan portfolio. We continue to have a low level of charge-offs and nonperforming community bank loans, however, the economic environment is continuously changing with bank failures, inflation, higher interest rates, global unrest, the war in Ukraine, conflicts in the Middle East, political uncertainty, and trade issues that have resulted in some economic uncertainty. If economic conditions worsen then Washington state and Puget Sound region may experience a more severe economic downturn, and our asset quality could deteriorate, which may require material additional provisions for credit losses.

Securities

We use our securities portfolio primarily as a source of liquidity and collateral that can be readily sold or pledged for public deposits or other business purposes. At March 31, 2024, our securities portfolio was invested in U.S. Agency collateralized mortgage obligations and U.S. Agency residential mortgage-backed securities. Because we target a loan-to-deposit ratio in the range of 90% to 100%, we prioritize liquidity over the earnings of our securities portfolio. At March 31, 2024, our loan-to-deposit ratio was 92.4% due to our strong growth in both loans and deposits. Our securities portfolio represented less than 5% of assets. To the extent our securities represent more than 5% of assets, absent an immediate need for liquidity, we may invest excess funds to provide a higher return.

As of March 31, 2024, the amortized cost of our investment securities totaled $50.1 million, a decrease of $100.8 million, or 66.8%, compared to $150.9 million as of December 31, 2023. The decrease in the securities portfolio was due to $100.0 million of securities in the AFS portfolio maturing during the three months ended March 31, 2024.

Our investment portfolio consists of only $41,000 in securities classified as AFS and, $50.0 million in held-to-maturity. The carrying values of our investment securities classified as AFS are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity. As of March 31, 2024, our AFS portfolio has an unrealized loss of $3,000, compared to an unrealized loss of $537,000 as of December 31, 2023.

The following table summarizes the amortized cost and estimated fair value of our investment securities as of the dates shown:

	As of March 31, 2024		As of December 31, 2023	
(dollars in thousands; unaudited)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ —	$ —	$ 99,996	$ 99,461
U.S. Agency collateralized mortgage obligations	44	41	45	43
Total available-for-sale securities	44	41	100,041	99,504
Securities held-to-maturity:				
U.S. Agency residential mortgage-backed securities	50,049	49,750	50,860	51,041
Total held-to-maturity securities	50,049	49,750	50,860	51,041
Total investment securities	$ 50,093	$ 49,791	$ 150,901	$ 150,545

We have the following equity investments which do not have a readily determinable fair value and are held at cost minus impairment if any, plus or minus observable price changes in orderly transactions for an identical or similar investment of the same issuer. This method will be applied until the investments do not qualify for the measurement election (e.g., if the investment has a readily determinable fair value). We will reassess at each reporting period whether the equity investments without a readily determinable fair value qualifies to be measured at cost minus impairment.

- As of March 31, 2024 and December 31, 2023, we had a $2.2 million equity interest in a specialized bank technology company.
- We had a $350,000 equity interest in a technology company as of March 31, 2024 and December 31, 2023.
- We had a $50,000 equity interest in an additional technology company as of March 31, 2024 and December 31, 2023.

The following table shows the activity in equity investments without a readily determinable fair value for the dates shown:

(dollars in thousands; unaudited)	For the Three Months Ended March 31, 2024	2023
Carrying value, beginning of period	$ 2,622	$ 2,572
Purchases	—	—
Observable price change	—	—
Carrying value, end of period	$ 2,622	$ 2,572

We invest in investment funds that are accelerating technology adoption by banks. These equity investments are held at fair value as reported by the funds. During the three months ended March 31, 2024, we contributed a net $27,000 with investment funds designed to help accelerate technology adoption at banks, and recognized net losses of $59,000, resulting in an equity interest of $777,000 at March 31, 2024. The Company has committed up to $643,000 in capital for these investment funds, however, the Company is not obligated to fund these commitments prior to a capital call.

(dollars in thousands; unaudited)	For the Three Months Ended March 31, 2024	2023
Carrying value, beginning of period	809	456
Purchases/capital calls/capital returns, net	27	122
Net change recognized in earnings	(59)	39
Carrying value, end of period	$ 777	$ 617

Other Assets

Deferred tax assets, net decreased $1.6 million to $2.2 million and other assets increased $88,000 to $12.1 million as of March 31, 2024, compared to December 31, 2023.

Deposits

We offer a variety of deposit products that have a wide range of interest rates and terms, including demand, money market, savings, and time accounts as well as IntraFi network reciprocal sweep deposits. Sweep deposits enable us to provide an FDIC insured deposit option to customers that have balances in excess of the FDIC insurance limit. This service trades our customers' funds as certificates of deposit or interest bearing demand deposits in increments under the FDIC insured amount to other participating financial institutions and in exchange we receive time deposit or interest bearing demand investments from participating financial institutions in a reciprocal agreement. We rely primarily on competitive pricing policies, convenient locations, electronic delivery channels (internet and mobile), and personalized service to attract new deposits and retain existing deposits. Additionally, we offer deposit products through our CCBX segment. CCBX deposits are generally classified as interest bearing demand and money market accounts. CCBX deposit products allow us to offer a broader range of partner specific products, which include products designed to reach specific under-served or under-banked populations served by our CCBX partners.

Total deposits as of March 31, 2024 were $3.46 billion, an increase of $102.6 million, or 3.1%, compared to $3.36 billion as of December 31, 2023. The increase in deposits was largely in core deposits, which increased $105.9 million to $3.45 billion from $3.34 billion at December 31, 2023. We define core deposits as all deposits except time deposits and brokered deposits. The $105.9 million increase in core deposits was largely a result of customer movement from noninterest to interest bearing accounts. Our cost of deposits for the community bank was 1.66% for the three months ended March 31, 2024. Additionally, during the quarter the amount of CCBX deposits that were transferred off balance sheet for increased FDIC insurance coverage, which increased to $92.2 million as of March 31, 2024.

Included in total deposits is $2.03 billion in CCBX deposits, an increase of $166.2 million, or 8.9%, compared to $1.86 billion as of December 31, 2023. CCBX customer deposit relationships include deposits with CCBX end customers, operating and non-operating deposit accounts. The deposits from our CCBX segment are generally classified as interest bearing demand and money market accounts.

Total noninterest bearing deposits as of March 31, 2024 were $574.1 million, a decrease of $51.1 million, or 8.2%, compared to $625.2 million as of December 31, 2023. Noninterest bearing deposits represent 16.6% and 18.6% of total deposits for March 31, 2024 and December 31, 2023, respectively.

Total interest bearing account balances, excluding time deposits, as of March 31, 2024 were $2.87 billion, an increase of $157.0 million, or 5.8%, compared to $2.72 billion as of December 31, 2023. The $157.0 million increase is due to CCBX growth in interest bearing deposits partially offset by a decrease in community bank interest bearing deposits of $14.2 million. Included in total deposits is $336.8 million in IntraFi network reciprocal interest bearing demand and money market sweep accounts as of March 31, 2024, which provides our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions. The decrease in community bank deposits is a result of managing our deposit rates during the quarter and letting some of our higher rate deposits run-off. We focus on growing and retaining less costly core deposits by not globally matching increases in rates on interest bearing deposits by our competitors and letting higher rate deposits run-off. We added some additional exception pricing tactics as a strategy at the end of the first quarter of 2024 to retain accounts and more effectively compete in the market.

Total time deposit balances as of March 31, 2024 were $15.1 million, a decrease of $3.2 million, or 17.7%, from $18.4 million as of December 31, 2023. The decrease is due to the strong increase in core deposits, and our focus on core deposits and letting higher rate deposits run off as they mature. We have seen competitors increase rates on time deposits, and we have not globally matched their rates in response as we focus on growing and retaining less costly core deposits.

The following table sets forth deposit balances at the dates indicated:

	As of March 31, 2024		As of December 31, 2023	
(dollars in thousands; unaudited)	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
Demand, noninterest bearing	$ 574,112	16.6 %	$ 625,202	18.6 %
Interest bearing demand and money market	2,799,667	80.9	2,640,240	78.6
Savings	74,085	2.1	76,562	2.3
Total core deposits	3,447,864	99.6	3,342,004	99.5
Brokered deposits	1	—	1	—
Time deposits less than $100,000	7,199	0.2	8,109	0.2
Time deposits $100,000 and over	7,915	0.2	10,249	0.3
Total	$ 3,462,979	100.0 %	$ 3,360,363	100.0 %
Cost of deposits [1]	3.49 %		3.36 %	

[1] Cost of deposits is annualized for the three months ended for each period presented.

The following tables detail the deposits for the segments which are included in the total deposit portfolio table above:

Community Bank	**As of**			
	March 31, 2024		**December 31, 2023**	
(dollars in thousands; unaudited)	**Balance**	**% to Total**	**Balance**	**% to Total**
Demand, noninterest bearing	$ 515,443	35.9 %	$ 561,572	37.5 %
Interest bearing demand and money market	834,725	58.2	846,072	56.5
Savings	68,747	4.8	71,598	4.8
Total core deposits	1,418,915	98.9	1,479,242	98.8
Brokered deposits	1	0.0	1	0.0
Time deposits less than $100,000	7,199	0.5	8,109	0.5
Time deposits $100,000 and over	7,915	0.6	10,249	0.7
Total Community Bank deposits	$ 1,434,030	100.0 %	$ 1,497,601	100.0 %
Cost of deposits[1]	1.66 %		1.57 %	

[1] Cost of deposits is annualized for the three months ended for each period presented.

CCBX	**As of**			
	March 31, 2024		**December 31, 2023**	
(dollars in thousands; unaudited)	**Balance**	**% to Total**	**Balance**	**% to Total**
Demand, noninterest bearing	$ 58,669	2.9 %	$ 63,630	3.4 %
Interest bearing demand and money market	1,964,942	96.8	1,794,168	96.3
Savings	5,338	0.3	4,964	0.3
Total core deposits	2,028,949	100.0	1,862,762	100.0
Total CCBX deposits	$ 2,028,949	100.0 %	$ 1,862,762	100.0 %
Cost of deposits [1]	4.93 %		4.90 %	

[1] Cost of deposits is annualized for the three months ended for each period presented.

The following table sets forth the Company's time deposits of $100,000 or more by time remaining until maturity as of the dates indicated:

(dollars in thousands; unaudited)	**As of March 31, 2024**	**As of December 31, 2023**
Maturity Period:		
Three months or less	$ 2,139	$ 5,068
Over three through six months	1,142	1,457
Over six through twelve months	2,387	1,595
Over twelve months	2,247	2,129
Total	$ 7,915	$ 10,249
Weighted average maturity (in years)	0.91	0.75

Average deposits for the three months ended March 31, 2024 were $3.32 billion, an increase of 16.8% compared to $2.85 billion for the three months ended March 31, 2023. The increase in average deposits was primarily due to an increase in core deposits, primarily in interest bearing deposits. We expect deposits to increase with continued growth in our primary market areas, the increase in commercial lending relationships for which we also seek deposit balances and the results of business development efforts by branch managers, treasury service personnel and lenders.

The average rate paid on total deposits was 3.49% for the three months ended March 31, 2024, compared to 2.13% for the three months ended March 31, 2023. The average rate paid on interest bearing demand and money market accounts increased 1.33% for the three months ended March 31, 2024, compared to the three months ended March 31, 2023. The average rate paid on time deposits of less than $100,000 increased 0.27% for the three months ended March 31, 2024, compared to the three months ended March 31, 2023. The average rate paid on time deposits greater than $100,000 increased 0.37% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The average rate paid on savings increased 0.23% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The overall higher average rate paid on interest bearing accounts in the three months ended March 31, 2024 compared to the three months ended March 31, 2023 is due to the continued high interest rate environment.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

	For the Three Months Ended March 31,			
	2024		2023	
(dollars in thousands; unaudited)	Average Balance	Average Rate[1]	Average Balance	Average Rate[1]
Demand, noninterest bearing	$ 595,693	0.00 %	$ 775,940	0.00 %
Interest bearing demand and money market	2,636,805	4.39	1,833,035	3.06
Savings	75,441	0.37	103,893	0.14
BaaS-brokered deposits	1	0.00	105,315	4.08
Time deposits less than $100,000	7,591	0.48	11,838	0.21
Time deposits $100,000 and over	9,046	0.62	16,136	0.25
Total deposits	$ 3,324,577	3.49 %	$ 2,846,157	2.13 %

(1) Annualized calculations shown for periods presented.

The ratio of average noninterest bearing deposits to average total deposits for the three months ended March 31, 2024 was 17.9%, compared to 27.3% for the three months ended March 31, 2023.

Uninsured Deposits

The FDIC insures our deposits up to $250,000 per depositor, per insured bank for each account ownership category. Deposits that exceed insurance limits are uninsured. At March 31, 2024, deposits totaled $3.46 billion, of which total estimated uninsured deposits were $495.6 million, or 14.3% of total deposits, compared to $558.6 million, or 16.6% of total deposits as of December 31, 2023. At March 31, 2023, deposits totaled $3.10 billion, of which total estimated uninsured deposits were $768.3 million, or 24.8% of total deposits. The Bank is using sweep deposits to provide our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions.

Estimated uninsured time deposits totaled $777,000 as of March 31, 2024. The table below shows the estimated uninsured time deposits, by account, for the maturity periods indicated:

(dollars in thousands; unaudited)	As of March 31, 2024
Maturity Period:	
Three months or less	$ 163
Over three through six months	—
Over six through twelve months	459
Over twelve months	155
Total	$ 777

Borrowings

We have the ability to utilize short-term to long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

Federal Reserve Bank Line of Credit. The Federal Reserve allows us to borrow against our line of credit through a borrower in custody agreement utilizing the discount window, which is collateralized by certain loans. As of March 31, 2024 and March 31, 2023, total borrowing capacity of $443.3 million and $465.3 million, respectively, was available under this arrangement. As of March 31, 2024 and 2023, Federal Reserve advances totaled zero. Additional loans were pledged in 2023 to significantly increase the borrowing capacity of the Bank in the event of a liquidity crisis.

Federal Home Loan Bank Advances. The FHLB allows us to borrow against our line of credit, which is collateralized by certain loans. As of March 31, 2024 and March 31, 2023, we had borrowing capacity of $216.2 million and $109.8 million, respectively, with the FHLB. As of March 31, 2024 and 2023, FHLB advances totaled zero.

Junior Subordinated Debentures. In 2004, we issued $3.6 million in junior subordinated debentures to Coastal (WA) Statutory Trust I (the "Trust"), of which we own all of the outstanding common securities. The Trust used the proceeds from the issuance of its underlying common securities and preferred securities to purchase the debentures issued by the Company. These debentures are the Trust's only assets and the interest payments from the debentures finance the distributions paid on the preferred securities. Prior to June 30, 2023, the debentures bore interest at a rate per annum equal to the 3-month LIBOR plus 2.10%. Beginning with rate adjustments subsequent to June 30, 2023, the rate is based off three-month CME Term SOFR plus 0.26%. The effective rate as of March 31, 2024 and December 31, 2023 was 7.69% and 7.75%, respectively. We generally have the right to defer payment of interest on the debentures at any time or from time to time for a period not exceeding five years provided that no extension period may extend beyond the stated maturity of the debentures. During any such extension period, distributions on the Trust's preferred securities will also be deferred, and our ability to pay dividends on our common stock will be restricted. The Trust's preferred securities are mandatorily redeemable upon maturity of the debentures, or upon earlier redemption as provided in the indenture, subject to Federal Reserve approval. If the debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. We unconditionally guarantee payment of accrued and unpaid distributions required to be paid on the Trust securities subject to certain exceptions, the redemption price with respect to any Trust securities called for redemption and amounts due if the Trust is liquidated or terminated.

Subordinated Debt. In August 2021, the Company issued a subordinated note in the amount of $25.0 million. The note matures on September 1, 2031, and bears interest at the rate of 3.375% per year for five years and, thereafter, reprices quarterly beginning September 1, 2026, at a rate equal to the three-month SOFR plus 2.76%. The five-year 3.375% interest period ends on September 1, 2026. We may redeem the subordinated note, in whole or in part, without premium or penalty, in principal redemption multiples of $1,000, after August 18, 2026, subject to any required regulatory approvals. Proceeds were used to repay $10.0 million in existing 5.65% interest subordinated debt on August 9, 2021 and $11.5 million was contributed to the Bank as capital during the quarter ended September 30, 2021.

In November 2022, the Company issued subordinated notes in the aggregate amount of $20.0 million. The notes mature on November 1, 2032, and bear interest at the rate of 7.00% per year for five years and, thereafter, reprices quarterly beginning November 1, 2027, at a rate equal to the three-month SOFR plus 2.9%. The five-year 7.00% interest period ends on November 1, 2027. We may redeem the subordinated notes, in whole or in part, without premium or penalty, in principal redemption multiples of $1,000, after November 1, 2027, subject to any required regulatory approvals.

Liquidity and Capital Resources

Liquidity Management

Liquidity refers to our capacity to meet our cash obligations at a reasonable cost. Our cash obligations require us to have cash flow that is adequate to fund loan growth and maintain on-balance sheet liquidity while meeting present and future obligations of deposit withdrawals, borrowing maturities and other contractual cash obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints in accessing sources of funds and the ability to convert assets into cash. Changes in economic conditions or exposure to credit, market, and operational, legal and reputational risks also could affect the Bank's liquidity risk profile and are considered in the assessment of liquidity management. Deposits obtained through our CCBX segment are a significant source of liquidity for us. If a relationship with a large CCBX partner terminates, the exit of those deposits could have an adverse impact on liquidity. Partner program agreements govern the relationship and are valid for a given period of time. Prior to exiting, the partner would need to provide us adequate notice as stipulated in the agreement that they were not going to renew the program agreement and intend to move the deposits. The movement to an alternate BaaS provider is cumbersome and would be over a period of time, which would allow us the opportunity to put alternate liquidity in place; those options are more fully discussed below. As of March 31, 2024, we have 2 partner with deposits that are in excess of 10% of total deposits and represent 44% of total deposits.

We continually monitor our liquidity position to ensure that our assets and liabilities are managed in a manner 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 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 readily available cash, deposits and highly liquid marketable securities free of legal, regulatory, or operational impediments, that can be used to meet liquidity needs in stressful situations; contingency funding policies and 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. Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our liquidity requirements are met primarily through our deposits, FHLB advances and the principal and interest payments we receive on loans and investment securities. Cash on hand, cash at third-party banks, investments available-for-sale and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail, commercial, and BaaS deposits, advances from the FHLB and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from the Federal Reserve discount window, draws on established federal funds lines from unaffiliated commercial banks, funds from online rate services, brokered deposits, a one-way buy through an ICS account, 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 and are closely monitoring liquidity in this uncertain economic environment.

The Company is a corporation separate and apart from our Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service requirements on its subordinated note and junior subordinated debentures. The Company's main source of cash flow has been through equity and debt offerings. The Company has consistently retained a portion of the funds from equity and debt offerings so that is has sufficient funds for its operating and debt costs. The Company currently holds $5.3 million in cash for debt servicing and operating purposes. In addition, the Bank can declare and pay dividends to the Company to meet the Company's debt and operating expenses. There are statutory and regulatory limitations that affect the ability of the Bank to pay dividends to the Company. We believe that these limitations will not impact the ability of the Bank to pay dividends to the Company to meet ongoing operating needs.

For contingency purposes, the Company maintains a minimum level of cash to fund one year's projected operating cash flow needs and targets a minimum liquidity ratio of 10%. Both of these minimum liquidity levels are on-balance sheet sources. Per policy and the Bank's liquidity contingency plan, in event of a liquidity emergency the Bank can utilize wholesale funds in an amount up to 30% of assets. Since the Bank uses only a small portion of its borrowing or wholesale funding capacity, the Bank has access to borrow funds if needed in a liquidity emergency.

Capital Adequacy

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital levels relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank level. Because the Company's consolidated assets exceeded $3.0 billion as of September 30, 2022, the Company is no longer eligible for the Federal Reserve's Small Bank Holding Company Policy Statement, is evaluated relative to the capital adequacy standards established by the Federal Reserve, and as of March 31, 2024, the Company no longer prepares and files financial reports with the Federal Reserve as a small bank holding company.

As of March 31, 2024, and December 31, 2023, the Company and the Bank were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized" for purposes of the Federal Reserve's prompt corrective action regulations. As we deploy capital and continue to grow operations, regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control growth in order to remain in compliance with all regulatory capital standards applicable to us. In addition, the Company is currently eligible to file a registration statement on Form S-3 with the Securities and Exchange Commission which could allow the Company to raise additional capital. The Company raised $34.5 million in December 2021 under a previously filed Form S-3. The Company, through a private placement, raised $25.0 million in subordinated debt in 2021 and repaid $10.0 million of subordinated debt with the proceeds and used the remainder for general corporate purposes. On November 1, 2022 the Company, through a private placement, raised $20.0 million of subordinated debt with the proceeds to be used for general corporate purposes. The Company contributed $15.0 million of the capital raised to the Bank in March 2023.

The following table presents the Company's and the Bank's regulatory capital ratios as of the dates presented, as well as the regulatory capital ratios that are required by Federal Reserve regulations to maintain "well-capitalized" status:

	Actual		Minimum Required for Capital Adequacy Purposes[1]		Required to be Well Capitalized Under the Prompt Corrective Action Provisions	
(dollars in thousands; unaudited)	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2024						
Tier 1 Leverage Capital (to average assets)						
Company	$ 307,187	8.24 %	$ 149,128	4.00 %	N/A	N/A
Bank Only	342,371	9.19 %	148,972	4.00 %	186,216	5.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	303,687	8.98 %	152,228	4.50 %	N/A	N/A
Bank Only	342,371	10.14 %	151,955	4.50 %	219,491	6.50 %
Tier 1 Capital (to risk-weighted assets)						
Company	307,187	9.08 %	202,970	6.00 %	N/A	N/A
Bank Only	342,371	10.14 %	202,607	6.00 %	270,143	8.00 %
Total Capital (to risk-weighted assets)						
Company	395,722	11.70 %	270,627	8.00 %	N/A	N/A
Bank Only	385,831	11.43 %	270,143	8.00 %	337,679	10.00 %
December 31, 2023						
Tier 1 Leverage Capital (to average assets)						
Company	$ 298,920	8.10 %	$ 147,616	4.00 %	N/A	N/A
Bank Only	333,848	9.06 %	147,469	4.00 %	184,336	5.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	295,450	9.10 %	146,137	4.50 %	N/A	N/A
Bank Only	333,848	10.30 %	145,875	4.50 %	210,708	6.50 %
Tier 1 Capital (to risk-weighted assets)						
Company	298,920	9.20 %	194,849	6.00 %	N/A	N/A
Bank Only	333,848	10.30 %	194,500	6.00 %	259,334	8.00 %
Total Capital (to risk-weighted assets)						
Company	385,464	11.87 %	259,799	8.00 %	N/A	N/A
Bank Only	375,320	11.58 %	259,334	8.00 %	324,167	10.00 %

(1) Presents the minimum capital adequacy requirements that apply to the Bank (excluding the capital conservation buffer) and the Company. The capital conservation buffer is an additional 2.5% of the amount necessary to meet the minimum risk-based capital requirements for total, tier 1, and common equity tier 1 risk-based capital. Prior to September 30, 2022, the Company operated under the Small Bank Holding Company Policy Statement and therefore was not subject to Basel III capital adequacy requirements.

Material Cash Requirements and Capital Resources

The following table provides the material cash requirements from known contractual and other obligations as of as of March 31, 2024:

		Payments Due by Period		
(dollars in thousands; unaudited)	Total	Less than 1 Year	Over 1 year	Other (1)
Cash requirements				
Time Deposits	$ 15,114	$ 10,721	$ 4,393	$ —
Subordinated notes	45,000	—	45,000	—
Junior subordinated debentures	3,609	—	3,609	—
Deferred compensation plans	716	175	541	—
Operating leases	7,097	1,023	6,074	—
Non-maturity deposits	3,447,864	—	—	3,447,864
Equity investment commitment	643	643	—	—

(1) Represents the undefined maturity of non-maturing deposits, including noninterest bearing demand deposits, interest bearing demand deposits, money market accounts, savings accounts and brokered deposits, which can generally be withdrawn on demand.

We maintain sufficient cash and cash equivalents and investment securities to meet short-term cash requirements and the levels of these assets are dependent on our operating, investing and financing activities during any given period. 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, commercial, and BaaS deposits, advances from the FHLB and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from the Federal Reserve discount window, draws on established federal funds lines from unaffiliated commercial banks, funds from online rate services, brokered funds, a one-way buy through an ICS account, and the issuance of debt or equity securities.

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

Our commitments associated with outstanding commitments to extend credit and standby and commercial letters of credit are summarized in the following table. Since commitments associated with commitments to extend credit and letters of credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

As of March 31, 2024 we had $2.19 billion in commitments to extend credit, compared to $2.34 billion as of December 31, 2023. The $152.9 million decrease is largely attributed to a $64.9 million decrease in commercial and industrial capital call line commitments, $13.0 million decrease in commercial construction loans partially offset by an increase of $4.4 million in consumer and other loan commitments, related to CCBX consumer loans, and a $15.8 million increase in residential real estate commitments, related to CCBX loans.

The following table presents commitments associated with outstanding commitments to extend credit, standby and commercial letters of credit and equity investment commitments as of the periods indicated:

(dollars in thousands; unaudited)	As of March 31, 2024	As of December 31, 2023
Commitments to extend credit:		
Commercial and industrial loans	$ 84,929	$ 86,134
Commercial and industrial loans - capital call lines	543,913	608,837
Construction – commercial real estate loans	79,682	92,709
Construction – residential real estate loans	11,499	20,825
Residential real estate loans	481,684	465,887
Commercial real estate loans	51,701	54,289
Credit cards	932,956	1,014,959
Consumer and other loans	5,192	779
Total commitments to extend credit	$ 2,191,556	$ 2,344,419
Standby letters of credit	$ 1,249	$ 1,096
Equity investment commitment	$ 643	$ 653

We have portfolio limits with our each of our partners to manage loan concentration risk, liquidity risk, and counter-party partner risk. For example, as of March 31, 2024, capital call lines outstanding balance totaled $135.7 million, and while commitments totaled $543.9 million the commitments are cancelable, and are also limited to a maximum of $350.0 million by agreement with the partner. These limits allow us to manage portfolio concentrations with partners and by loan type.

The following table shows the CCBX maximum portfolio sizes by loan category as of March 31, 2024.

(dollars in thousands; unaudited)	Type of Lending	As of March 31, 2024	As of December 31, 2023	Increase/(decrease)
		Maximum Portfolio Size		
Commercial and industrial loans:				
Capital call lines	Business - Venture Capital	$ 350,000	$ 350,000	$ —
All other commercial & industrial loans	Business - Small Business	294,132	305,905	(11,773)
Real estate loans:				
Home equity lines of credit	Home Equity - Secured Credit Cards	375,000	375,000	—
Consumer and other loans:				
Credit cards	Credit Cards - Primarily Consumer	806,965	756,614	50,351
Installment loans	Consumer	989,388	933,374	56,014
Other consumer and other loans	Consumer - Secured Credit Builder & Unsecured consumer	689,515	709,108	(19,593)
		$ 3,505,000	$ 3,430,001	$ 74,999
Total Existing Portfolio Size		$ 1,316,272	$ 1,195,938	$ 120,334

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit, is based on management's credit evaluation of the customer. As of March 31, 2024, $1.49 billion in commitments to extend credit are unconditionally cancelable, compared to $1.57 billion at December 31, 2023. The decrease in unconditionally cancelable commitments is attributed to composition changes in the CCBX loan portfolio. Commitments that are unconditionally cancelable allow us to better manage loan growth, credit concentrations and liquidity. We also limit CCBX partners to a maximum aggregate customer loan balance originated and held on our balance sheet, as shown in the table above.

Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers.

We believe that we will be able to meet our long-term cash requirements as they come due. Adequate cash levels are generated through profitability, repayments from loans and securities, deposit gathering activity, access to borrowing sources and periodic loan sales.

Critical Accounting Policies

Our accounting policies are integral to understanding our results of operations. Our accounting policies are described in greater detail in "Note 1 - Description of Business and Summary of Significant Accounting Policies" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" of our Form 10-K. We have procedures and processes in place to facilitate making these judgments. Actual results in these areas could differ from management's estimates. There have been no significant changes concerning our critical accounting policies as described in our Form 10-K except as indicated in Note 1 of the condensed consolidated financial statements included elsewhere in this report.

Selected Financial Data

The following table shows the Company's key performance ratios for the periods indicated.

	Three Months Ended				
(unaudited)	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Return on average assets [1]	0.73 %	0.97 %	1.13 %	1.52 %	1.58 %
Return on average equity [1]	9.21 %	12.35 %	14.60 %	19.53 %	19.89 %
Yield on earnings assets [1]	10.07 %	9.77 %	10.08 %	10.18 %	9.19 %
Yield on loans receivable [1]	10.85 %	10.71 %	10.84 %	10.85 %	9.95 %
Cost of funds [1]	3.52 %	3.39 %	3.18 %	2.77 %	2.19 %
Cost of deposits [1]	3.49 %	3.36 %	3.14 %	2.72 %	2.13 %
Net interest margin [1]	6.78 %	6.61 %	7.10 %	7.58 %	7.15 %
Noninterest expense to average assets [1]	6.04 %	5.56 %	6.23 %	6.11 %	5.69 %
Noninterest income to average assets [1]	9.38 %	6.95 %	3.81 %	6.90 %	6.28 %
Efficiency ratio	37.88 %	41.58 %	58.36 %	42.92 %	43.03 %
Loans receivable to deposits [2]	92.42 %	90.05 %	90.19 %	96.23 %	92.55 %

[1] Annualized calculations shown for periods presented.
[2] Including loans held for sale.

CCBX – BaaS Reporting Information

During the three months ended March 31, 2024, $79.8 million was recognized in noninterest income BaaS credit enhancements related to the establishment of a credit enhancement asset for credit losses indemnified by our strategic partners and reserved for unfunded commitments for CCBX partner loans and deposits. Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by indemnifying and/or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for expected losses for these CCBX loans, unfunded commitments and negative deposit accounts. When the provision for credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner legal commitment to indemnify or reimburse losses. The credit enhancement asset is relieved as credit enhancement payments and recoveries are received from the CCBX partner or taken from the partner's cash reserve account. Agreements with our CCBX partners also provide protection to the Bank from fraud by indemnifying or reimbursing incurred fraud losses. BaaS fraud includes noncredit fraud losses on loans and deposits originated through partners. Fraud losses are recorded when incurred

as losses in noninterest expense, and the enhancement received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. CCBX partners also pledge a cash reserve account at the Bank which the Bank can collect from when losses occur that is then replenished by the partner on a regular interval. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill their contracted obligations to replenish their cash reserve account then the Bank would be exposed to additional losses, as a result of this counterparty risk. If a CCBX partner does not replenish their cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit enhancements. The Bank would write-off any remaining credit enhancement asset from the CCBX partner but would retain the full yield and any fee income on the loan portfolio going forward, and BaaS loan expense would decrease once default occurred and payments to the CCBX partner were stopped.

For CCBX partner loans the Bank records contractual interest earned from the borrower on loans in interest income, adjusted for origination costs which are paid or payable to the CCBX partner. BaaS loan expense represents the amount paid or payable to partners for credit and fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Bank takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can then be compared to interest income on the Company's community bank loans.

The following table illustrates how CCBX partner loan income and expenses are recorded in the financial statements:

Loan income and related loan expense	**Three Months Ended**	
(dollars in thousands; unaudited)	**March 31, 2024**	**March 31, 2023**
BaaS loan interest income	$ 54,569	$ 42,220
Less: BaaS loan expense	24,837	17,554
Net BaaS loan income [2]	29,732	24,666
Net BaaS loan income divided by average BaaS loans [1][2]	9.45 %	9.40 %
Yield on loans [1]	17.34 %	16.09 %

[1] Annualized calculations shown for periods presented.
[2] A reconciliation of this non-GAAP measure is set forth in the section titled "*GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures.*"

The increased activity of CCBX partners has resulted in increases in direct fees, expenses and interest for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The following tables are a summary of the direct fees, expenses and interest components of BaaS for the periods indicated and are not inclusive of all income and expense related to BaaS.

Interest income	**Three Months Ended**	
(dollars in thousands; unaudited)	**March 31, 2024**	**March 31, 2023**
Loan interest income	$ 54,569	$ 42,220
Total BaaS interest income	$ 54,569	$ 42,220

Interest expense	**Three Months Ended**	
(dollars in thousands; unaudited)	**March 31, 2024**	**March 31, 2023**
BaaS interest expense	$ 22,854	$ 12,424
Total BaaS interest expense	$ 22,854	$ 12,424

(dollars in thousands; unaudited)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
BaaS program income:		
Servicing and other BaaS fees	$ 1,131	$ 948
Transaction fees	1,122	917
Interchange fees	1,539	789
Reimbursement of expenses	1,033	921
BaaS program income	4,825	3,575
BaaS indemnification income:		
BaaS credit enhancements	79,808	42,362
BaaS fraud enhancements	923	1,999
BaaS indemnification income	80,731	44,361
Total noninterest BaaS income	$ 85,556	$ 47,936

(dollars in thousands; unaudited)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
BaaS loan and fraud expense:		
BaaS loan expense	$ 24,837	$ 17,554
BaaS fraud expense	923	1,999
Total BaaS loan and fraud expense	$ 25,760	$ 19,553

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. As other companies may use different calculations for these adjusted measures, this presentation may not be comparable to other similarly titled adjusted measures reported by other companies.

The following non-GAAP reconciliation in presented to show the impact of certain unanticipated expenses on net income. The most directly comparable GAAP measure is net income.

Non-GAAP Reconciliation of Unanticipated Expenses	Three Months Ended March 31, 2024		
(dollars in thousands; unaudited)	Actual	Unanticipated Expenses	Adjusted
Net interest income	$ 60,936	$ —	$ 60,936
Provision for credit losses	(83,158)	(1,096)	(82,062)
Noninterest income	86,955	—	86,955
Noninterest expense[1]	(56,018)	(1,915)	(54,103)
Income before provision for income tax	8,715	(3,010)	11,725
Provision for income tax	(1,915)	662	(2,577)
Net income	$ 6,800	$ (2,348)	$ 9,148

[1] Table below shows the detail of unanticipated noninterest expense shown in table above:

Unanticipated noninterest expense:	
Audit and accounting services	$ 849
Contract termination fee	600
Operational loss	122
Employment realignment costs	343
Total unanticipated noninterest expense items	$ 1,915

The following non-GAAP measure is presented to illustrate the impact of BaaS loan expense on net loan income and yield on CCBX loans.

Net BaaS loan income divided by average CCBX loans is a non-GAAP measure that includes the impact BaaS loan expense on net BaaS loan income and the yield on CCBX loans. The most directly comparable GAAP measure is yield on CCBX loans.

The following non-GAAP measure is presented to illustrate the impact of BaaS loan expense on net interest income and net interest margin.

Net interest income net of BaaS loan expense is a non-GAAP measure that includes the impact BaaS loan expense on net interest income. The most directly comparable GAAP measure is net interest income.

Net interest margin, net of BaaS loan expense is a non-GAAP measure that includes the impact of BaaS loan expense on net interest rate margin. The most directly comparable GAAP measure is net interest margin.

Reconciliations of the GAAP and non-GAAP measures are presented in the following table.

(dollars in thousands; unaudited)	As of and for the Three Months Ended March 31, 2024	As of and for the Three Months Ended March 31, 2023
Net BaaS loan income divided by average CCBX loans:		
CCBX loan yield (GAAP)[1]	17.34 %	16.09 %
Total average CCBX loans receivable	$ 1,265,857	$ 1,064,192
Interest and earned fee income on CCBX loans (GAAP)	54,569	42,220
BaaS loan expense	(24,837)	(17,554)
Net BaaS loan income	$ 29,732	$ 24,666
Net BaaS loan income divided by average CCBX loans [1]	9.45 %	9.40 %
Net interest margin, net of BaaS loan expense:		
CCBX interest margin	8.60 %	10.15 %
CCBX earning assets	1,864,156	1,296,839
Net interest income	39,866	32,448
Less: BaaS loan expense	(24,837)	(17,554)
Net interest income, net of BaaS loan expense	$ 15,029	$ 14,894
CCBX net interest margin, net of BaaS loan expense	3.24 %	4.66 %

[1] Annualized calculations for periods presented.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Quantitative and Qualitative Disclosures about Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest earning assets and interest bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a decrease in current fair market values. Our objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. The FOMC raised interest rates 0.25% in mid-March 2022, 1.25% in the second quarter of 2022, 1.50% in the third quarter of 2022, 1.25% in the fourth quarter of 2022, 0.50% in the first quarter 2023, and 0.25% in the second quarter 2023 and 0.25% in the third quarter of 2023. The FOMC has subsequently held interest rates flat as inflation continues to remain elevated. The timing and magnitude of any potential rate changes, expected to be rate cuts in the event inflation decreases, remains uncertain but will likely be closely tied to future inflationary trends. The impact of this and any future increases or decreases will impact financial results.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset Liability Committee (“ALCO”), of the Bank and reviewed by the Asset Liability and Investment Committee of our board of directors in accordance with policies approved by our board of directors. ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, ALCO considers the impact on earnings and capital on the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, ALCO reviews liquidity, cash flows, maturities of deposits and consumer and commercial deposit activity. Management employs various methodologies to manage interest rate risk including an analysis of relationships between interest earning assets and interest bearing liabilities and interest rate simulations using a model. The Asset Liability and Investment Committee of our board of directors meets regularly to review the Bank’s interest rate risk profile, liquidity position, including contingent liquidity, and investment portfolio.

We use interest rate risk simulation models to test interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of non-maturity deposit accounts are based on historical decay rates and assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model’s simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies. To help ensure the accuracy of the model, we perform a quarterly back test against our actual results.

On a quarterly basis, we run multiple simulations under two different premises of which one is a static balance sheet and the other is a dynamic growth balance sheet. The static balance sheet approach produces results that show the interest risk currently inherent in our balance sheet at that point in time. The dynamic balance sheet includes our projected growth levels going forward and produces results that shows how net income, net interest income, and interest risk change based on our projected growth. These simulations test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic approaches, rates are shocked instantaneously and ramped over a 12-month horizon assuming parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulations are also conducted and involve analysis of interest income and expense under various changes in the shape of the yield curve including a

forward curve, flat curve, steepening curve, and an inverted curve. Our internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one- and two-year period should not decline by more than 10% for a 100 basis point shift, 15% for a 200 basis point shift, 20% for a 300 basis point shift, and 25% for a 400 basis point shift.

The following tables summarize the simulated change in net interest income over a 12-month horizon as of the dates indicated:

(unaudited)

Change in Market Interest Rates	Twelve Month Projection As of March 31, 2024	Twelve Month Projection As of December 31, 2023
Static Balance Sheet and Rate Shifts		
+400 basis points	(11.1)%	(6.2)%
+300 basis points	(8.3)%	(4.6)%
+200 basis points	(5.4)%	(3.0)%
+100 basis points	(2.7)%	(1.4)%
-100 basis points	2.5%	1.1%
-200 basis points	4.6%	1.8%
-300 basis points	6.6%	2.1%
-400 basis points	7.9%	2.2%
Dynamic Balance Sheet and Rate Shifts		
+400 basis points	(6.0)%	(1.3)%
+300 basis points	(4.5)%	(0.9)%
+200 basis points	(2.9)%	(0.5)%
+100 basis points	(1.4)%	(0.2)%
-100 basis points	1.2%	(0.1)%
-200 basis points	2.1%	(0.6)%
-300 basis points	2.9%	(1.5)%
-400 basis points	3.0%	(2.8)%

The results illustrate that the Company's static balance sheet remains liability sensitive, however, the dynamic balance sheet is fairly neutral to rate shifts. As the Company's composition has shifted over time due to the growth of the CCBX segment to more variable/adjustable in nature, our interest rate risk profile has been mitigated, reducing variability in both rising and falling rate environments, as the community bank and CCBX segments work to offset one another. The community bank segment remains asset sensitive and generally performs better in an increasing interest rate environment. For the community bank, the drivers are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, offering rates on these community bank deposits change more slowly than changes in short-term market rates. For the CCBX segment, the offering rates on the loan portfolio are modeled using partner contractual net yields which mostly adjust with market shifts. For this CCBX portfolio, the offering rates on approximately 70% of loans and the majority of deposits nearly fully reprice with changes in market rates. During 2023, one of the material CCBX lending partners contractual yields converted to a fixed rate product, continuing to reduce the overall variability in the Company's balance sheet. As of March 31, 2023, the Company's overall funding mix continues to be more heavily weighted towards the CCBX deposits which are primarily variable rate deposits aiding with the neutrality of the balance sheet and the overall shift to liability sensitive. The assumptions incorporated into the simulation model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact that fluctuations in market interest rates have on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions, the shape of the interest yield curve, and the application and timing of various assumptions and strategies.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Company's Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Change in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting occurred during the three months ended March 31, 2024, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 earnings.

Item 1A. Risk Factors

For information regarding the Company's risk factors, see "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, which are incorporated by reference herein. As of March 31, 2024, the risk factors of the Company have not changed materially from those disclosed in the Form 10-K.

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

There were no unregistered sales of the Company's equity securities during the three months ended March 31, 2024.

The Company did not repurchase any of its equity securities during the three months ended March 31, 2024 and does not have any authorized share repurchase programs.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the period covered by this Quarterly Report on Form 10-Q, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter months ended March 31, 2024, formatted in inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.
104	Cover Page Interactive Data (formatted as Inline XBRL and contained in Exhibit 101 filed herewith)

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.

COASTAL FINANCIAL CORPORATION

Dated: May 8, 2024

By: /s/ Eric M. Sprink
Eric M. Sprink
Chief Executive Officer
(Principal Executive Officer)

Dated: May 8, 2024

By: /s/ Joel G. Edwards
Joel G. Edwards
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)