UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 June 30, 2021

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 001-38412

BRIDGEWATER BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Minnesota **(State or other jurisdiction of incorporation or organization)**	**26-0113412** **(I.R.S. Employer Identification No.)**
4450 Excelsior Boulevard, Suite 100 **St. Louis Park, Minnesota** **(Address of principal executive offices)**	**55416** **(Zip Code)**

(952) 893-6868
(Registrant's telephone number, including area code)

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, 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 ☒

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

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Stock, $0.01 Par Value	BWB	The Nasdaq Stock Market LLC

The number of shares of the Common Stock outstanding as of July 26, 2021 was 28,185,527.

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PART 1 – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands, except share data)

	June 30, 2021 (Unaudited)	December 31, 2020
ASSETS		
Cash and Cash Equivalents	$ 92,197	$ 160,675
Bank-Owned Certificates of Deposit	2,368	2,860
Securities Available for Sale, at Fair Value	402,786	390,629
Loans, Net of Allowance for Loan Losses of $37,591 at June 30, 2021 (unaudited) and $34,841 at December 31, 2020	2,545,145	2,282,436
Federal Home Loan Bank (FHLB) Stock, at Cost	5,832	5,027
Premises and Equipment, Net	50,177	50,987
Accrued Interest	8,728	9,172
Goodwill	2,626	2,626
Other Intangible Assets, Net	574	670
Other Assets	52,179	22,263
Total Assets	$ 3,162,612	$ 2,927,345
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 758,023	$ 671,903
Interest Bearing	1,962,883	1,829,733
Total Deposits	2,720,906	2,501,636
Notes Payable	—	11,000
FHLB Advances	57,500	57,500
Subordinated Debentures, Net of Issuance Costs	73,913	73,739
Accrued Interest Payable	2,654	1,615
Other Liabilities	16,809	16,450
Total Liabilities	2,871,782	2,661,940
SHAREHOLDERS' EQUITY		
Preferred Stock- $0.01 par value		
Authorized 10,000,000; None Issued and Outstanding at June 30, 2021 (unaudited) and December 31, 2020	—	—
Common Stock- $0.01 par value		
Common Stock - Authorized 75,000,000; Issued and Outstanding 28,162,777 at June 30, 2021 (unaudited) and 28,143,493 at December 31, 2020	282	281
Additional Paid-In Capital	104,811	103,714
Retained Earnings	176,495	154,831
Accumulated Other Comprehensive Income	9,242	6,579
Total Shareholders' Equity	290,830	265,405
Total Liabilities and Equity	$ 3,162,612	$ 2,927,345

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Income
(dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
INTEREST INCOME				
Loans, Including Fees	$ 28,748	$ 25,913	$ 56,656	$ 51,026
Investment Securities	2,312	2,091	4,732	4,287
Other	87	162	199	321
Total Interest Income	31,147	28,166	61,587	55,634
INTEREST EXPENSE				
Deposits	3,513	5,170	7,184	10,894
Notes Payable	—	111	61	226
FHLB Advances	228	1,064	456	2,091
Subordinated Debentures	1,112	479	2,197	872
Federal Funds Purchased	6	—	6	107
Total Interest Expense	4,859	6,824	9,904	14,190
NET INTEREST INCOME	26,288	21,342	51,683	41,444
Provision for Loan Losses	1,600	3,000	2,700	5,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,688	18,342	48,983	36,344
NONINTEREST INCOME				
Customer Service Fees	231	135	465	375
Net Gain on Sales of Available for Sale Securities	702	1,361	702	1,364
Other Income	670	481	1,444	1,957
Total Noninterest Income	1,603	1,977	2,611	3,696
NONINTEREST EXPENSE				
Salaries and Employee Benefits	7,512	6,348	14,614	12,802
Occupancy and Equipment	980	672	2,035	1,385
Other Expense	2,985	3,691	5,751	6,270
Total Noninterest Expense	11,477	10,711	22,400	20,457
INCOME BEFORE INCOME TAXES	14,814	9,608	29,194	19,583
Provision for Income Taxes	3,821	2,010	7,530	4,542
NET INCOME	$ 10,993	$ 7,598	$ 21,664	$ 15,041
EARNINGS PER SHARE				
Basic	$ 0.39	$ 0.26	$ 0.77	$ 0.52
Diluted	0.38	0.26	0.75	0.51
Dividends Paid Per Share	—	—	—	—

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Net Income	$ 10,993	$ 7,598	$ 21,664	$ 15,041
Other Comprehensive Income (Loss):				
Unrealized Gains on Available for Sale Securities	2,866	3,300	350	3,122
Unrealized Gains (Losses) on Cash Flow Hedges	(2,551)	(741)	3,054	(3,673)
Reclassification Adjustment for Gains Realized in Income	(357)	(1,307)	(29)	(1,292)
Income Tax Impact	(17)	(263)	(712)	387
Total Other Comprehensive Income (Loss), Net of Tax	(59)	989	2,663	(1,456)
Comprehensive Income	$ 10,934	$ 8,587	$ 24,327	$ 13,585

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Three and Six Months Ended June 30, 2021 and 2020
(dollars in thousands, except share data)
(Unaudited)

Three Months Ended	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE March 31, 2020	28,807,375	$ 288	$ 110,446	$ 135,080	$ 2,329	$ 248,143
Stock-based Compensation	7,490	—	421	—	—	421
Comprehensive Income	—	—	—	7,598	989	8,587
Stock Options Exercised	15,500	—	39	—	—	39
Issuance of Restricted Stock Awards	7,195	—	—	—	—	—
BALANCE June 30, 2020	28,837,560	$ 288	$ 110,906	$ 142,678	$ 3,318	$ 257,190
BALANCE March 31, 2021	28,132,929	$ 281	$ 104,087	$ 165,502	$ 9,301	$ 279,171
Stock-based Compensation	4,848	—	583	—	—	583
Comprehensive Income (Loss)	—	—	—	10,993	(59)	10,934
Stock Options Exercised	25,000	1	141	—	—	142
BALANCE June 30, 2021	28,162,777	$ 282	$ 104,811	$ 176,495	$ 9,242	$ 290,830

Six Months Ended	Shares Voting	Common Stock Voting	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE December 31, 2019	28,973,572	$ 290	$ 112,093	$ 127,637	$ 4,774	$ 244,794
Stock-based Compensation	15,211	—	822	—	—	822
Comprehensive Income (Loss)	—	—	—	15,041	(1,456)	13,585
Stock Options Exercised	15,500	—	39	—	—	39
Stock Repurchases	(177,864)	(2)	(2,048)	—	—	(2,050)
Issuance of Restricted Stock Awards	11,141	—	—	—	—	—
BALANCE June 30, 2020	28,837,560	$ 288	$ 110,906	$ 142,678	$ 3,318	$ 257,190
BALANCE December 31, 2020	28,143,493	$ 281	$ 103,714	$ 154,831	$ 6,579	$ 265,405
Stock-based Compensation	9,856	—	1,157	—	—	1,157
Comprehensive Income	—	—	—	21,664	2,663	24,327
Stock Options Exercised	26,400	1	153	—	—	154
Stock Repurchases	(16,618)	—	(208)	—	—	(208)
Restricted Shares Withheld for Taxes	(354)	—	(5)	—	—	(5)
BALANCE June 30, 2021	28,162,777	$ 282	$ 104,811	$ 176,495	$ 9,242	$ 290,830

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 21,664	$ 15,041
Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) Operating Activities:		
Net Amortization on Securities Available for Sale	1,755	1,136
Net Gain on Sales of Securities Available for Sale	(702)	(1,364)
Provision for Loan Losses	2,700	5,100
Depreciation of Premises and Equipment	1,146	380
Amortization of Other Intangible Assets	96	96
Amortization of Subordinated Debt Issuance Costs	174	52
Stock-based Compensation	1,157	822
Changes in Operating Assets and Liabilities:		
Accrued Interest Receivable and Other Assets	(4,870)	(8,074)
Accrued Interest Payable and Other Liabilities	4,810	(12,507)
Net Cash Provided by Operating Activities	27,930	682
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Bank-Owned Certificates of Deposit	492	(241)
Proceeds from Sales of Securities Available for Sale	7,757	34,038
Proceeds from Maturities, Paydowns, Payups and Calls of Securities Available for Sale	18,023	17,312
Purchases of Securities Available for Sale	(39,341)	(87,215)
Net Increase in Loans	(265,409)	(277,092)
Net Increase in FHLB Stock	(805)	(793)
Purchases of Premises and Equipment	(336)	(15,935)
Proceeds from Sales of Foreclosed Assets	—	134
Purchase of Bank-Owned Life Insurance	(25,000)	—
Net Cash Used in Investing Activities	(304,619)	(329,792)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	219,270	418,741
Principal Payments on Notes Payable	(11,000)	(1,000)
Proceeds from FHLB Advances	—	96,000
Principal Payments on FHLB Advances	—	(85,000)
Issuance of Subordinated Debt, net of Issuance Costs	—	48,873
Stock Options Exercised	154	39
Stock Repurchases	(208)	(2,050)
Shares Repurchased for Tax Withholdings Upon Vesting of Restricted Stock-Based Awards	(5)	—
Net Cash Provided by Financing Activities	208,211	475,603
NET CHANGE IN CASH AND CASH EQUIVALENTS	(68,478)	146,493
Cash and Cash Equivalents Beginning	160,675	31,935
Cash and Cash Equivalents Ending	$ 92,197	$ 178,428
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash Paid for Interest	$ 8,691	$ 14,167
Cash Paid for Income Taxes	10,438	4,243
Loans Transferred to Foreclosed Assets	—	134
Premises and Equipment Transferred to Other Assets	—	121
Net Investment Securities Sold but Not Settled	—	1,433

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(dollars in thousands, except share data)
(Unaudited)

Note 1: Description of the Business and Summary of Significant Accounting Policies

Organization

Bridgewater Bancshares, Inc. (the "Company") is a financial holding company whose operations consist of the ownership of its wholly-owned subsidiaries, Bridgewater Bank (the "Bank") and Bridgewater Risk Management, Inc. The Bank commenced operations in 2005 and provides retail and commercial loan and deposit services, principally to customers within the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area. In 2008, the Bank formed BWB Holdings, LLC, a wholly owned subsidiary of the Bank, for the purpose of holding repossessed property. In 2018, the Bank formed Bridgewater Investment Management, Inc., a wholly owned subsidiary of the Bank, for the purpose of holding certain municipal securities and to engage in municipal lending activities.

Bridgewater Risk Management, a subsidiary of the Company, was incorporated in 2016 as a wholly owned insurance company. It insures the Company and its subsidiaries against certain risks unique to the operations of the Company and for which insurance may not be currently available or economically feasible in today's insurance marketplace. Bridgewater Risk Management pools resources with several other insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves.

Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of the consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows in conformity with U.S. generally accepted accounting principles ("GAAP"). However, all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of the interim financial statements have been included. The results of operations for the three and six-month periods ended June 30, 2021 are not necessarily indicative of the results which may be expected for the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 11, 2021.

Principles of Consolidation

These consolidated financial statements include the amounts of the Company, the Bank, with locations in Bloomington, Greenwood, Minneapolis (2), St. Louis Park, Orono, and St. Paul, Minnesota, BWB Holdings, LLC, Bridgewater Investment Management, Inc., and Bridgewater Risk Management, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Information available which could affect judgements includes, but is not limited to, changes in interest rates, changes in the performance of the economy, including COVID-19 pandemic related changes, and changes in the financial condition of borrowers.

Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, calculation of deferred tax assets, fair value of financial instruments, and investment securities impairment.

Emerging Growth Company

The Company qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, even if the Company complies with the greater obligations of public companies that are not emerging growth companies, the Company may avail itself of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as the Company is an emerging growth company. The Company will continue to be an emerging growth company until the earliest to occur of: (1) the end of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities under the Company's Registration Statement on Form S-1, which was declared effective by the SEC on March 13, 2018; (2) the last day of the fiscal year in which the Company has $1.07 billion or more in annual revenues; (3) the date on which the Company is deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); or (4) the date on which the Company has, during the previous three-year period, issued publicly or privately, more than $1.0 billion in non-convertible debt securities.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company elected to take advantage of the benefits of this extended transition period.

Impact of Recently Adopted Accounting Guidance

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU aims to simplify the accounting for income taxes by removing certain exceptions to the general principles and also simplification of areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The Company adopted this standard during the first quarter of 2021 and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815*. This ASU clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the fair value measurement alternative. The Company adopted this standard during the first quarter of 2021 and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Subsequent Events

Subsequent events have been evaluated through July 30, 2021, which is the date the consolidated financial statements were available to be issued.

Note 2: Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares adjusted for the dilutive effect of stock compensation. For the three and six months ended June 30, 2021, stock options, restricted stock awards and restricted stock units of approximately 23,000 and 56,000, respectively, were excluded from the calculation because their effect would have been anti-dilutive. For the three and six months ended June 30, 2020, stock options and restricted stock awards of approximately 561,000 and 560,000, respectively, were excluded from the calculation because their effect would have been anti-dilutive.

The following table presents the numerators and denominators for basic and diluted earnings per share computations for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net Income Available to Common Shareholders	$ 10,993	$ 7,598	$ 21,664	$ 15,041
Weighted Average Common Stock Outstanding:				
Weighted Average Common Stock Outstanding (Basic)	28,040,762	28,676,441	28,029,129	28,733,968
Dilutive Effect of Stock Compensation	1,087,419	488,716	1,019,295	616,458
Weighted Average Common Stock Outstanding (Dilutive)	29,128,181	29,165,157	29,048,424	29,350,426
Basic Earnings per Common Share	$ 0.39	$ 0.26	$ 0.77	$ 0.52
Diluted Earnings per Common Share	0.38	0.26	0.75	0.51

Note 3: Securities

The following tables present the amortized cost and estimated fair value of securities with gross unrealized gains and losses at June 30, 2021 and December 31, 2020:

	June 30, 2021			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Available for Sale:				
U.S. Treasury Securities	$ 1,009	$ 1	$ —	$ 1,010
Municipal Bonds	118,599	8,219	(803)	126,015
Mortgage-Backed Securities	125,053	1,640	(1,851)	124,842
Corporate Securities	74,002	2,849	(88)	76,763
SBA Securities	36,302	93	(249)	36,146
Asset-Backed Securities	36,619	1,391	—	38,010
Total Securities Available for Sale	$ 391,584	$ 14,193	$ (2,991)	$ 402,786

	December 31, 2020			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Available for Sale:				
Municipal Bonds	$ 105,975	$ 9,373	$ (336)	$ 115,012
Mortgage-Backed Securities	123,395	2,029	(1,164)	124,260
Corporate Securities	71,116	1,240	(201)	72,155
SBA Securities	40,455	32	(380)	40,107
Asset-Backed Securities	38,135	976	(16)	39,095
Total Securities Available for Sale	$ 379,076	$ 13,650	$ (2,097)	$ 390,629

The following tables present the fair value and gross unrealized losses of securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2021 and December 31, 2020:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2021						
Municipal Bonds	$ 18,445	$ (407)	$ 3,884	$ (396)	$ 22,329	$ (803)
Mortgage-Backed Securities	46,041	(1,438)	13,310	(413)	59,351	(1,851)
Corporate Securities	11,037	(69)	981	(19)	12,018	(88)
SBA Securities	—	—	22,244	(249)	22,244	(249)
Total Securities Available for Sale	$ 75,523	$ (1,914)	$ 40,419	$ (1,077)	$ 115,942	$ (2,991)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Municipal Bonds	$ 12,023	$ (329)	$ 223	$ (7)	$ 12,246	$ (336)
Mortgage-Backed Securities	45,120	(1,163)	1,699	(1)	46,819	(1,164)
Corporate Securities	23,643	(131)	2,430	(70)	26,073	(201)
SBA Securities	3,288	(3)	28,193	(377)	31,481	(380)
Asset-Backed Securities	2,471	(16)	—	—	2,471	(16)
Total Securities Available for Sale	$ 86,545	$ (1,642)	$ 32,545	$ (455)	$ 119,090	$ (2,097)

At June 30, 2021, 141 debt securities had unrealized losses with aggregate depreciation of approximately 2.5% from the Company's amortized cost basis. At December 31, 2020, 150 debt securities had unrealized losses with aggregate depreciation of approximately 1.7% from the Company's amortized cost basis. These unrealized losses related principally to changes in interest rates and were not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In analyzing whether unrealized losses on debt securities are other than temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition and performance of the issuer, and the quality of any underlying assets or credit enhancements. Since management has the ability and intent to hold these debt securities for the foreseeable future, no declines were deemed to be other than temporary as of June 30, 2021.

The following table presents a summary of amortized cost and estimated fair value of debt securities by the lesser of expected call date or contractual maturity as of June 30, 2021. Call date is used when a call of the debt security is expected, determined by the Company when the security has a market value above its amortized cost. Contractual maturities will differ from expected maturities for mortgage-backed, SBA securities and asset-backed securities because borrowers may have the right to call or prepay obligations without penalties.

June 30, 2021	Amortized Cost	Fair Value
Due in One Year or Less	$ 11,297	$ 11,409
Due After One Year Through Five Years	82,321	86,414
Due After Five Years Through 10 Years	66,836	70,702
Due After 10 Years	33,156	35,263
Subtotal	193,610	203,788
Mortgage-Backed Securities	125,053	124,842
SBA Securities	36,302	36,146
Asset-Backed Securities	36,619	38,010
Totals	$ 391,584	$ 402,786

As of June 30, 2021 and December 31, 2020, the securities portfolio was unencumbered.

The following table presents a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses, for the three and six months ended June 30, 2021 and June 30, 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Proceeds From Sales of Securities	$ 6,107	$ 31,936	$ 7,757	$ 34,038
Gross Gains on Sales	702	1,435	702	1,438
Gross Losses on Sales	—	(74)	—	(74)

Note 4: Loans

The following table presents the components of the loan portfolio at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Commercial	$ 321,474	$ 304,220
Paycheck Protection Program	99,072	138,454
Construction and Land Development	251,573	170,217
Real Estate Mortgage:		
1-4 Family Mortgage	277,943	294,479
Multifamily	790,275	626,465
CRE Owner Occupied	87,507	75,604
CRE Non-owner Occupied	758,101	709,300
Total Real Estate Mortgage Loans	1,913,826	1,705,848
Consumer and Other	8,241	7,689
Total Loans, Gross	2,594,186	2,326,428
Allowance for Loan Losses	(37,591)	(34,841)
Net Deferred Loan Fees	(11,450)	(9,151)
Total Loans, Net	$ 2,545,145	$ 2,282,436

The following table presents the activity in the allowance for loan losses, by segment, for the three months ended June 30, 2021 and 2020:

Three Months Ended June 30, 2021	Commercial	Paycheck Protection Program	Construction and Land Development	1--4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Unallocated	Total
Allowance for Loan Losses:										
Beginning Balance	$ 6,451	$ 83	$ 2,773	$ 3,894	$ 9,856	$ 1,187	$ 11,026	$ 232	$ 485	$ 35,987
Provision for Loan Losses	71	(33)	654	(394)	1,294	57	(8)	(11)	(30)	1,600
Loans Charged-off	—	—	—	—	—	—	—	(3)	—	(3)
Recoveries of Loans	3	—	—	2	—	—	—	2	—	7
Total Ending Allowance Balance	$ 6,525	$ 50	$ 3,427	$ 3,502	$ 11,150	$ 1,244	$ 11,018	$ 220	$ 455	$ 37,591
Three Months Ended June 30, 2020										
Allowance for Loan Losses:										
Beginning Balance	$ 3,557	$ —	$ 2,131	$ 3,202	$ 6,556	$ 938	$ 8,003	$ 92	$ 106	$ 24,585
Provision for Loan Losses	1,633	90	42	74	141	26	320	82	592	3,000
Loans Charged-off	—	—	—	—	—	—	—	(1)	—	(1)
Recoveries of Loans	2	—	—	46	—	—	—	1	—	49
Total Ending Allowance Balance	$ 5,192	$ 90	$ 2,173	$ 3,322	$ 6,697	$ 964	$ 8,323	$ 174	$ 698	$ 27,633

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The following table presents the activity in the allowance for loan losses, by segment, for the six months ended June 30, 2021 and 2020:

Six Months Ended June 30, 2021	Commercial	Paycheck Protection Program	Construction and Land Development	1--4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Unallocated	Total
Allowance for Loan Losses:										
Beginning Balance	$ 5,703	$ 70	$ 2,491	$ 3,972	$ 9,517	$ 1,162	$ 10,991	$ 203	$ 732	$ 34,841
Provision for Loan Losses	800	(20)	936	(470)	1,633	50	27	21	(277)	2,700
Loans Charged-off	—	—	—	(5)	—	—	—	(12)	—	(17)
Recoveries of Loans	22	—	—	5	—	32	—	8	—	67
Total Ending Allowance Balance	$ 6,525	$ 50	$ 3,427	$ 3,502	$ 11,150	$ 1,244	$ 11,018	$ 220	$ 455	$ 37,591
Six Months Ended June 30, 2020										
Allowance for Loan Losses:										
Beginning Balance	$ 3,058	$ —	$ 2,202	$ 2,839	$ 5,824	$ 792	$ 6,972	$ 85	$ 754	$ 22,526
Provision for Loan Losses	2,164	90	(29)	435	873	172	1,351	100	(56)	5,100
Loans Charged-off	(34)	—	—	—	—	—	—	(14)	—	(48)
Recoveries of Loans	4	—	—	48	—	—	—	3	—	55
Total Ending Allowance Balance	$ 5,192	$ 90	$ 2,173	$ 3,322	$ 6,697	$ 964	$ 8,323	$ 174	$ 698	$ 27,633

The following tables present the balance in the allowance for loan losses and the recorded investment in loans, by segment, based on impairment method as of June 30, 2021 and December 31, 2020:

Allowance for Loan Losses at June 30, 2021	Commercial	Paycheck Protection Program	Construction and Land Development	1--4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Unallocated	Total
Individually Evaluated for Impairment	$ 275	$ —	$ —	$ —	$ —	$ —	$ —	$ 12	$ —	$ 287
Collectively Evaluated for Impairment	6,250	50	3,427	3,502	11,150	1,244	11,018	208	455	37,304
Totals	$ 6,525	$ 50	$ 3,427	$ 3,502	$ 11,150	$ 1,244	$ 11,018	$ 220	$ 455	$ 37,591
Allowance for Loan Losses at December 31, 2020										
Individually Evaluated for Impairment	$ 37	$ —	$ —	$ —	$ —	$ —	$ —	$ 13	$ —	$ 50
Collectively Evaluated for Impairment	5,666	70	2,491	3,972	9,517	1,162	10,991	190	732	34,791
Totals	$ 5,703	$ 70	$ 2,491	$ 3,972	$ 9,517	$ 1,162	$ 10,991	$ 203	$ 732	$ 34,841

Loans at June 30, 2021	Commercial	Paycheck Protection Program	Construction and Land Development	1--4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Total
Individually Evaluated for Impairment	$ 1,213	$ —	$ 140	$ 1,350	$ —	$ 865	$ 3,615	$ 12	$ 7,195
Collectively Evaluated for Impairment	320,261	99,072	251,433	276,593	790,275	86,642	754,486	8,229	2,586,991
Totals	$ 321,474	$ 99,072	$ 251,573	$ 277,943	$ 790,275	$ 87,507	$ 758,101	$ 8,241	$ 2,594,186
Loans at December 31, 2020									
Individually Evaluated for Impairment	$ 239	$ —	$ 156	$ 1,498	$ —	$ 870	$ 12,388	$ 13	$ 15,164
Collectively Evaluated for Impairment	303,981	138,454	170,061	292,981	626,465	74,734	696,912	7,676	2,311,264
Totals	$ 304,220	$ 138,454	$ 170,217	$ 294,479	$ 626,465	$ 75,604	$ 709,300	$ 7,689	$ 2,326,428

The following table presents information regarding total carrying amounts and total unpaid principal balances of impaired loans by loan segment as of June 30, 2021 and December 31, 2020:

	June 30, 2021			December 31, 2020		
	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	Related Allowance
Loans With No Related Allowance for Loan Losses:						
Commercial	$ 52	$ 52	$ —	$ 122	$ 122	$ —
Construction and Land Development	140	747	—	156	763	—
Real Estate Mortgage:						
HELOC and 1-4 Family Junior Mortgage	884	884	—	884	884	—
1st REM - Rentals	467	467	—	614	614	—
CRE Owner Occupied	864	864	—	870	870	—
CRE Non Owner Occupied	3,615	3,615	—	12,388	12,388	—
Totals	6,022	6,629	—	15,034	15,641	—
Loans With An Allowance for Loan Losses:						
Commercial	1,161	1,165	275	117	120	37
Consumer and Other	12	12	12	13	13	13
Totals	1,173	1,177	287	130	133	50
Grand Totals	$ 7,195	$ 7,806	$ 287	$ 15,164	$ 15,774	$ 50

The following table presents information regarding the average balances and interest income recognized on impaired loans by loan segment for the three months and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020		2021		2020	
	Average Investment	Interest Recognized	Average Investment	Interest Recognized	Average Investment	Interest Recognized	Average Investment	Interest Recognized
Loans With No Related Allowance for Loan Losses:								
Commercial	$ 53	$ —	$ 150	$ 3	$ 56	$ 2	$ 156	$ 5
Construction and Land Development	144	—	168	—	147	—	172	—
Real Estate Mortgage:								
HELOC and 1-4 Family Junior Mortgage	883	11	329	—	884	22	329	—
1st REM - Rentals	471	6	926	11	473	12	929	22
CRE Owner Occupied	867	3	1,844	25	869	6	1,840	50
CRE Non Owner Occupied	3,624	52	222	3	3,635	91	224	6
Totals	6,042	72	3,639	42	6,064	133	3,650	83
Loans With An Allowance for Loan Losses:								
Commercial	1,162	14	109	—	1,161	26	110	1
Consumer and Other	12	—	34	1	13	—	34	1
Totals	1,174	14	143	1	1,174	26	144	2
Grand Totals	$ 7,216	$ 86	$ 3,782	$ 43	$ 7,238	$ 159	$ 3,794	$ 85

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The process of analyzing loans for changes in risk rating is ongoing through routine monitoring of the portfolio and annual internal credit reviews for credits meeting certain thresholds.

The following tables present the risk category of loans by loan segment as of June 30, 2021 and December 31, 2020, based on the most recent analysis performed by management:

	June 30, 2021			
	Pass	**Watch**	**Substandard**	**Total**
Commercial	$ 293,690	$ 26,571	$ 1,213	$ 321,474
Paycheck Protection Program	99,072	—	—	99,072
Construction and Land Development	251,433	—	140	251,573
Real Estate Mortgage:				
HELOC and 1-4 Family Junior Mortgage	27,000	—	883	27,883
1st REM - 1-4 Family	45,670	696	168	46,534
LOCs and 2nd REM - Rentals	20,413	20	—	20,433
1st REM - Rentals	182,794	—	299	183,093
Multifamily	790,275	—	—	790,275
CRE Owner Occupied	86,642	—	865	87,507
CRE Non-owner Occupied	725,077	29,409	3,615	758,101
Consumer and Other	8,229	—	12	8,241
Totals	$ 2,530,295	$ 56,696	$ 7,195	$ 2,594,186

	December 31, 2020			
	Pass	**Watch**	**Substandard**	**Total**
Commercial	$ 289,465	$ 14,516	$ 239	$ 304,220
Paycheck Protection Program	138,454	—	—	138,454
Construction and Land Development	170,061	—	156	170,217
Real Estate Mortgage:				
HELOC and 1-4 Family Junior Mortgage	29,396	—	884	30,280
1st REM - 1-4 Family	41,239	703	—	41,942
LOCs and 2nd REM - Rentals	20,678	—	—	20,678
1st REM - Rentals	200,965	—	614	201,579
Multifamily	626,465	—	—	626,465
CRE Owner Occupied	74,734	—	870	75,604
CRE Non-owner Occupied	667,336	29,576	12,388	709,300
Consumer and Other	7,676	—	13	7,689
Totals	$ 2,266,469	$ 44,795	$ 15,164	$ 2,326,428

The following tables present the aging of the recorded investment in past due loans by loan segment as of June 30, 2021 and December 31, 2020:

	Accruing Interest				
June 30, 2021	**Current**	**30-89 Days Past Due**	**90 Days or More Past Due**	**Nonaccrual**	**Total**
Commercial	$ 321,468	$ —	$ —	$ 6	$ 321,474
Paycheck Protection Program	99,072	—	—	—	99,072
Construction and Land Development	251,433	—	—	140	251,573
Real Estate Mortgage:					
HELOC and 1-4 Family Junior Mortgage	27,883	—	—	—	27,883
1st REM - 1-4 Family	46,534	—	—	—	46,534
LOCs and 2nd REM - Rentals	20,433	—	—	—	20,433
1st REM - Rentals	183,093	—	—	—	183,093
Multifamily	790,275	—	—	—	790,275
CRE Owner Occupied	86,892	—	—	615	87,507
CRE Non-owner Occupied	758,101	—	—	—	758,101
Consumer and Other	8,241	—	—	—	8,241
Totals	$ 2,593,425	$ —	$ —	$ 761	$ 2,594,186

December 31, 2020	Accruing Interest Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total
Commercial	$ 304,211	$ 3	$ —	$ 6	$ 304,220
Paycheck Protection Program	138,454	—	—	—	138,454
Construction and Land Development	170,061	—	—	156	170,217
Real Estate Mortgage:					
HELOC and 1-4 Family Junior Mortgage	30,280	—	—	—	30,280
1st REM - 1-4 Family	41,942	—	—	—	41,942
LOCs and 2nd REM - Rentals	20,668	10	—	—	20,678
1st REM - Rentals	201,579	—	—	—	201,579
Multifamily	626,465	—	—	—	626,465
CRE Owner Occupied	74,991	—	—	613	75,604
CRE Non-owner Occupied	709,300	—	—	—	709,300
Consumer and Other	7,689	—	—	—	7,689
Totals	$ 2,325,640	$ 13	$ —	$ 775	$ 2,326,428

At June 30, 2021, there were three loans classified as troubled debt restructurings with a total outstanding balance of $399. In comparison, at December 31, 2020, there were three loans classified as troubled debt restructurings with a total outstanding balance of $421. There were no new loans classified as a troubled debt restructuring during the six month period ended June 30, 2021 and no loans classified as troubled debt restructurings during the previous twelve months subsequently defaulted during the six months ended June 30, 2021.

In response to the COVID-19 pandemic, the Company developed programs for clients who experienced business and personal disruptions due to the COVID-19 pandemic pursuant to which the Company provided interest-only modifications, loan payment deferrals, or extended amortization modifications. In accordance with interagency regulatory guidance and the CARES Act, qualifying loans modified in response to the COVID-19 pandemic are not considered troubled debt restructurings.

The following table presents a summary of active loan modifications made in response to the COVID-19 pandemic, by loan segment and modification type, as of June 30, 2021:

	Interest-Only		Extended Amortization		Total	
(dollars in thousands)	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans
Commercial	$ 3,547	7	$ 4,778	1	$ 8,325	8
Real Estate Mortgage:						
CRE Owner Occupied	615	3	—	—	615	3
CRE Nonowner Occupied	24,997	8	—	—	24,997	8
Totals	$ 29,159	18	$ 4,778	1	$ 33,937	19

Note 5: Deposits

The following table presents the composition of deposits at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Transaction Deposits	$ 1,190,146	$ 1,038,193
Savings and Money Market Deposits	761,485	657,617
Time Deposits	321,857	353,543
Brokered Deposits	447,418	452,283
Totals	$ 2,720,906	$ 2,501,636

Note 6: Notes Payable

On February 25, 2021, the Company's $11,000 note payable matured and was paid off in full.

On March 1, 2021, the Company entered into a Loan and Security Agreement and related revolving note with an unaffiliated financial institution that was secured by 100% of the issued and outstanding stock of the Bank. The revolving line of credit is for a maximum principal amount of $25,000 and matures on February 28, 2023. Interest accrues on unpaid principal balances at a variable interest rate equal to the greater of the Wall Street Journal Prime Rate in effect or a floor rate of 3.85%. The Company is required to pay quarterly payments of interest on the unpaid principal balance. Principal payments may be made any time prior to the maturity date, on which date all unpaid principal and accrued interest are due and payable. The note contains customary representations, warranties, and covenants, including certain financial covenants and capital ratio requirements. As of June 30, 2021, the Company believes it was in compliance with all covenants. As of June 30, 2021, there were no outstanding balances under the revolving line of credit.

Note 7: Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments, which consist of interest rate swaps and interest rate caps, to assist in its interest rate risk management. The notional amount does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements. Derivative financial instruments are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings.

Non-hedge Derivatives

The Company enters into interest rate swaps to facilitate client transactions and meet their financing needs. Upon entering into these instruments to meet client needs, the Company enters into offsetting positions with large U.S. financial institutions in order to minimize the risk to the Company. These swaps are derivatives, but are not designated as hedging instruments.

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counter party or client owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the client or counterparty and therefore, the Company has no credit risk.

The following table presents a summary of the Company's interest rate swaps to facilitate customer transactions as of June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest Rate Swap Agreements:				
Assets	$ 49,400	$ 868	$ 49,696	$ 2,701
Liabilities	49,400	(868)	49,696	(2,701)
Total	$ 98,800	$ —	$ 99,392	$ —

Cash Flow Hedging Derivatives

For derivative instruments that are designated and qualify as a cash flow hedge, the aggregate fair value of the derivative instrument is recorded in other assets or other liabilities with any gain or loss related to changes in fair value recorded in accumulated other comprehensive income, net of tax. The gain or loss is reclassified into earnings in the same period during which the hedged asset or liability affects earnings and is presented in the same income statement line item as the earnings effect of the hedged asset or liability. The Company utilizes cash flow hedges to manage interest rate exposure for the brokered certificate of deposit, wholesale borrowing, and notes payable portfolios. During the next 12 months, the Company estimates that $1,213 will be reclassified to interest expense.

The following table presents a summary of the Company's interest rate swaps designated as cash flow hedges as of June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Notional Amount	$ 125,000	$ 111,000
Weighted Average Pay Rate	1.02 %	1.26 %
Weighted Average Receive Rate	0.14 %	0.22 %
Weighted Average Maturity (Years)	4.27	3.95
Net Unrealized Loss	$ (1,098)	$ (3,410)

During 2020 and 2021, the Company purchased interest rate caps, designated as cash flow hedges, of certain deposit liabilities, with notional amounts totaling $60,000. The interest rate caps require receipt of variable amounts from the counterparties when interest rates rise above the strike price in the contracts. An initial premium of $2,689 was paid up front for the caps executed in 2020 and an initial premium of $352,000 was paid up front for a cap executed in the second quarter of 2021. Amortization on the interest rate caps was $95 and was recorded as a component of interest expense on brokered deposits for the six months ended June 30, 2021. At June 30, 2021, the weighted average strike price for outstanding interest rate caps was 0.80% and the weighted average maturity was 8.96 years.

The following table presents a summary of the Company's interest rate contracts as of June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest Rate Swap Agreements:				
Assets	$ 55,000	$ 809	$ 5,000	$ 56
Liabilities	70,000	(1,907)	106,000	(3,466)
Interest Rate Cap Agreements:				
Assets	60,000	4,431	50,000	2,834

The Company is party to collateral support agreements with certain derivative counterparties. These agreements require that the Company maintain collateral based on the fair values of derivative transactions. In the event of default by the Company, the counterparty would be entitled to the collateral. As of June 30, 2021 and December 31, 2020, the Company pledged cash collateral for the Company's derivative contracts of $3,358 and $8,526, respectively. In addition, as of June 30, 2021 and December 31, 2020, the Company's interest rate cap counterparties have pledged cash collateral to the Company of $5,190 and $2,700, respectively.

The following table presents the effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income for the six months ended June 30, 2021 and 2020:

(dollars in thousands)		Three Months Ended June 30,		Six Months Ended June 30,	
		2021	2020	2021	2020
Derivatives in Cash Flow Hedging Relationships	**Location of Loss Reclassified from AOCI into Income**	**Loss Reclassified from AOCI into Earnings**		**Loss Reclassified from AOCI into Earnings**	
Interest rate swaps	Interest expense	$ (275)	$ (53)	$ (537)	$ (72)
Interest rate caps	Interest expense	(70)	—	(136)	—

No amounts were reclassified from accumulated other comprehensive income into net income related to hedge ineffectiveness for these derivatives during the three and six months ended June 30, 2021 and 2020, and no amounts are expected to be reclassified from accumulated other comprehensive income into net income related to hedge ineffectiveness over the next twelve months.

Note 8: Tax Credit Investments

The Company invests in qualified affordable housing projects and federal historic projects for the purpose of community reinvestment and obtaining tax credits. The Company's tax credit investments are limited to existing lending relationships with well-known developers and projects within the Company's market area.

The following table presents a summary of the Company's investments in qualified affordable housing projects and other tax credit investments at June 30, 2021 and December 31, 2020:

		June 30, 2021		December 31, 2020	
Investment	**Accounting Method**	**Investment**	**Unfunded Commitment (1)**	**Investment**	**Unfunded Commitment**
Low Income Housing Tax Credit (LIHTC)	Proportional Amortization	$ 3,011	$ —	$ 1,867	$ —
Federal Historic Tax Credit (FHTC)	Equity	2,035	967	2,198	1,858
Total		$ 5,046	$ 967	$ 4,065	$ 1,858

(1) All commitments are expected to be paid by the Company by June 30, 2022.

The following table presents a summary of the amortization expense and tax benefit recognized for the Company's qualified affordable housing projects and other tax credit investments for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Amortization Expense (1)				
LIHTC	$ 70	$ 70	$ 140	$ 141
FHTC	140	362	258	447
Total	$ 210	$ 432	$ 398	$ 588
Tax Benefit Recognized (2)				
LIHTC	$ (83)	$ (82)	$ (165)	$ (165)
FHTC	(156)	(447)	(313)	(617)
Total	$ (239)	$ (529)	$ (478)	$ (782)

(1) The amortization expense for the LIHTC investments are included in income tax expense. The amortization for the FHTC tax credits are included in noninterest expense.
(2) All of the tax benefits recognized are included in income tax expense. The tax benefit recognized for the FHTC investments primarily reflects the tax credits generated from the investments, and excludes the net tax expense/benefit of the investments' income/loss.

Note 9: Commitments, Contingencies and Credit Risk

Financial Instruments with Off-Balance Sheet Credit Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Unfunded Commitments Under Lines of Credit	$ 800,914	$ 644,338
Letters of Credit	102,455	90,206
Totals	$ 903,369	$ 734,544

The Company had outstanding letters of credit with the FHLB in total amounts of $42,675 and $60,091 at June 30, 2021 and December 31, 2020, respectively, on behalf of customers and to secure public deposits.

Legal Contingencies

Neither the Company nor any of its subsidiaries is a party, and no property of these entities is subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the Bank's business. The Company does not know of any proceeding contemplated by a governmental authority against the Company or any of its subsidiaries.

Note 10: Stock Options and Restricted Stock Awards

The Company established the Bridgewater Bancshares, Inc. 2012 Combined Incentive and Non-Statutory Stock Option Plan (the “2012 Plan”) under which the Company may grant options to its directors, officers, and employees for up to 750,000 shares of common stock. Both incentive stock options and nonqualified stock options may be granted under the 2012 Plan. The exercise price of each option equals the fair market value of the Company’s stock on the date of grant and the maximum term of each outstanding option is ten years. All outstanding options have been granted with vesting periods of five years. As of June 30, 2021 and December 31, 2020, there were 30,000 shares of the Company’s common stock reserved for future option grants under the 2012 Plan.

In 2017, the Company adopted the Bridgewater Bancshares, Inc. 2017 Combined Incentive and Non-Statutory Stock Option Plan (the “2017 Plan”). Under the 2017 Plan, the Company may grant options to its directors, officers, employees and consultants for up to 1,500,000 shares of common stock. Both incentive stock options and nonqualified stock options may be granted under the 2017 Plan. The exercise price of each option equals the fair market value of the Company’s stock on the date of grant and the maximum term of each outstanding option is ten years. All outstanding options have been granted with vesting periods of four or five years. As of June 30, 2021 and December 31, 2020, there were 293,900 and 313,600 of remaining shares of the Company’s common stock reserved for future option grants under the 2017 Plan.

In 2019, the Company adopted the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (the “2019 EIP”). The types of awards which may be granted under the 2019 EIP include incentive and nonqualified stock options, stock appreciation rights, stock awards, restricted stock units, restricted stock and cash incentive awards. The Company may grant these awards to its directors, officers, employees and certain other service providers for up to 1,000,000 shares of common stock. The exercise price of each option equals the fair market value of the Company’s stock on the date of grant and the maximum term of each award is ten years. All outstanding awards have been granted with a vesting period of four years. As of June 30, 2021 and December 31, 2020, there were 543,507 and 561,883 of remaining shares of the Company’s common stock reserved for future grants under the 2019 EIP.

Stock Options

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on an industry index as described below. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Historically, the Company has not paid a dividend on its common stock and does not expect to do so in the near future.

The Company used the S&P 600 CM Bank Index as its historical volatility index. The S&P 600 CM Bank Index is an index of publicly traded small capitalization, regional, commercial banks located throughout the United States. There were 51 banks in the index ranging in market capitalization from $500 million up to $4.0 billion.

The weighted average assumptions used in the model of valuing stock option grants for the six months ended June 30, 2021, are as follows:

	June 30, 2021
Dividend Yield	— %
Expected Life	7 Years
Expected Volatility	29.93 %
Risk-Free Interest Rate	1.14 %

The following table presents a summary of the status of the Company's stock option grants for the six months ended June 30, 2021:

	June 30, 2021	
	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	1,914,250	$ 7.29
Granted	20,500	16.88
Exercised	(26,400)	5.81
Forfeitures	(800)	7.47
Outstanding at Period End	1,907,550	$ 7.42
Options Exercisable at Period End	1,200,950	$ 6.06

For the three months ended June 30, 2021 and 2020, the Company recognized compensation expense for stock options of $229 and $230, respectively. For the six months ended June 30, 2021 and 2020, the Company recognized compensation expense for stock options of $452 and $448, respectively.

The following table presents information pertaining to options outstanding at June 30, 2021:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Number of Options	Weighted Average Exercise Price
$ 2.13 - 3.99	509,250	$ 2.95	2.5	509,250	$ 2.95
7.00 - 7.99	963,000	7.47	6.3	571,400	7.47
8.00 - 8.99	20,000	8.76	8.8	1,250	8.76
10.00 - 10.99	10,000	10.08	8.9	2,500	10.08
11.00 - 11.99	85,000	11.27	7.9	24,000	11.33
12.00 - 12.99	274,800	12.89	8.1	77,550	12.90
13.00 - 13.99	25,000	13.22	6.9	15,000	13.22
16.00 - 16.99	10,000	16.23	9.8	—	16.23
17.00 - 17.99	10,500	17.49	9.9	—	17.49
Totals	1,907,550	$ 7.42	5.7	1,200,950	$ 6.06

As of June 30, 2021, there was $1,689 of total unrecognized compensation cost related to nonvested stock options granted under the 2012 Plan, 2017 Plan and 2019 EIP that is expected to be recognized over a weighted-average period of 2.1 years.

The following table presents an analysis of nonvested options to purchase shares of the Company's stock issued and outstanding for the six months ended June 30, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested Options at December 31, 2020	708,900	$ 3.24
Granted	20,500	5.66
Vested	(22,000)	4.23
Forfeited	(800)	7.47
Nonvested Options at June 30, 2021	706,600	$ 3.27

Restricted Stock Awards

In 2019 and 2020, the Company granted restricted stock awards out of the 2019 EIP. These awards vest in equal annual installments on the first four anniversaries of the date of the grant. Nonvested restricted stock awards are classified as outstanding shares with forfeitable voting and dividend rights.

The following table presents an analysis of nonvested restricted stock awards outstanding for the six months ended June 30, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested Awards at December 31, 2020	110,962	$ 12.63
Granted	—	—
Vested	(2,784)	10.32
Forfeited	—	—
Nonvested Awards at June 30, 2021	108,178	$ 12.69

Compensation expense associated with the restricted stock awards is recognized on a straight-line basis over the period that the restrictions associated with the awards lapse based on the total cost of the award at the grant date. For the three months ended June 30, 2021 and 2020, the Company recognized compensation expense for restricted stock awards of $113. For the six months ended June 30, 2021 and 2020, the Company recognized compensation expense for restricted stock awards of $225 and $221, respectively.

As of June 30, 2021, there was $1,124 of total unrecognized compensation cost related to nonvested restricted stock awards granted under the 2019 EIP that is expected to be recognized over a weighted-average period of 2.5 years.

In addition, during the six months ended June 30, 2021, the Company issued 9,856 shares of unrestricted common stock to directors as a part of their compensation for their annual services on the Company's board of directors. The aggregate value of the shares issued to directors of $159 was included in stock based compensation expense in the accompanying consolidated statements of shareholders' equity.

Restricted Stock Units

In 2020, the Company granted restricted stock units out of the 2019 EIP. Restricted stock units granted out of the 2019 EIP represent the right to receive one share of Company stock upon vesting and vest in equal annual installments on the first four anniversaries of the date of the grant. Nonvested restricted stock units have no voting or dividend rights and are not considered outstanding until vesting.

The following table presents an analysis of nonvested restricted stock units outstanding for the six months ended June 30, 2021:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested Units at December 31, 2020	205,666	$ 12.27
Granted	9,600	15.10
Vested	—	—
Forfeited	(1,080)	12.27
Nonvested Units at June 30, 2021	214,186	$ 12.40

Compensation expense associated with the restricted stock units is recognized on a straight-line basis over the period that the restrictions associated with the units lapse based on the total cost of the unit at the grant date. For the three and six months ended June 30, 2021, the Company recognized compensation expense for restricted stock units of $162 and $320. No compensation expense was recognized for restricted stock units for the three and six months ended June 30, 2020.

As of June 30, 2021, there was $2,292 of total unrecognized compensation cost related to nonvested restricted stock units granted under the 2019 EIP that is expected to be recognized over a period of four years. As of June 30, 2021, no restricted stock units had vested.

Note 11: Regulatory Capital

The Company and the Bank are subject to various regulatory requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank must also meet certain specific capital guidelines under the regulatory framework for prompt corrective action. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average consolidated assets (referred to as the "leverage ratio"), as defined under the applicable regulatory capital rules.

The following tables present the capital amounts and ratios for the Company and the Bank as of June 30, 2021 and December 31, 2020:

	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
June 30, 2021	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
				(dollars in thousands)				
Company (Consolidated):								
Total Risk-Based Capital	$ 388,317	13.49 %	$ 230,349	8.00 %	$ 302,333	10.50 %	N/A	N/A
Tier 1 Risk-Based Capital	278,388	9.67	172,762	6.00	244,746	8.50	N/A	N/A
Common Equity Tier 1 Capital	278,388	9.67	129,571	4.50	201,555	7.00	N/A	N/A
Tier 1 Leverage Ratio	278,388	9.08	122,618	4.00	122,618	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	$ 359,586	12.49 %	$ 230,314	8.00 %	$ 302,287	10.50 %	$ 287,892	10.00 %
Tier 1 Risk-Based Capital	323,575	11.24	172,735	6.00	244,708	8.50	230,314	8.00
Common Equity Tier 1 Capital	323,575	11.24	129,551	4.50	201,524	7.00	187,130	6.50
Tier 1 Leverage Ratio	323,575	10.57	122,507	4.00	122,507	4.00	153,133	5.00

December 31, 2020	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
Company (Consolidated):								
Total Risk-Based Capital	$ 360,198	14.58 %	$ 197,604	8.00 %	$ 259,355	10.50 %	N/A	N/A
Tier 1 Risk-Based Capital	255,530	10.35	148,203	6.00	209,954	8.50	N/A	N/A
Common Equity Tier 1 Capital	255,530	10.35	111,152	4.50	172,904	7.00	N/A	N/A
Tier 1 Leverage Ratio	255,530	9.28	110,168	4.00	110,168	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	$ 330,380	13.37 %	$ 197,629	8.00 %	$ 259,388	10.50 %	$ 247,036	10.00 %
Tier 1 Risk-Based Capital	299,447	12.12	148,222	6.00	209,981	8.50	197,629	8.00
Common Equity Tier 1 Capital	299,447	12.12	111,166	4.50	172,925	7.00	160,574	6.50
Tier 1 Leverage Ratio	299,447	10.89	109,972	4.00	109,972	4.00	137,465	5.00

The Company and the Bank must maintain a capital conservation buffer, as defined by Basel III regulatory capital guidelines, in order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers.

Note 12: Fair Value Measurement

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilized quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Company may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of June 30, 2021 and December 31, 2020:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Fair Value of Financial Assets:				
Securities Available for Sale:				
U.S. Treasury Securities	$ 1,010	$ —	$ —	$ 1,010
Municipal Bonds	—	126,015	—	126,015
Mortgage-Backed Securities	—	124,842	—	124,842
Corporate Securities	—	76,763	—	76,763
SBA Securities	—	36,146	—	36,146
Asset-Backed Securities	—	38,010	—	38,010
Interest Rate Caps	—	4,431	—	4,431
Interest Rate Swaps	—	1,677	—	1,677
Total Fair Value of Financial Assets	$ 1,010	$ 407,884	$ —	$ 408,894
Fair Value of Financial Liabilities:				
Interest Rate Swaps	$ —	$ 2,775	$ —	$ 2,775
Total Fair Value of Financial Liabilities	$ —	$ 2,775	$ —	$ 2,775

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Fair Value of Financial Assets:				
Securities Available for Sale:				
Municipal Bonds	$ —	$ 115,012	$ —	$ 115,012
Mortgage-Backed Securities	—	124,260	—	124,260
Corporate Securities	—	72,155	—	72,155
SBA Securities	—	40,107	—	40,107
Asset-Backed Securities	—	39,095	—	39,095
Interest Rate Caps	—	2,834	—	2,834
Interest Rate Swaps	—	2,757	—	2,757
Total Fair Value of Financial Assets	$ —	$ 396,220	$ —	$ 396,220
Fair Value of Financial Liabilities:				
Interest Rate Swaps	$ —	$ 6,167	$ —	$ 6,167
Total Fair Value of Financial Liabilities	$ —	$ 6,167	$ —	$ 6,167

Investment Securities

When available, the Company uses quoted market prices to determine the fair value of investment securities; such items are classified in Level 1 of the fair value hierarchy.

For the Company’s investments, when quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially, all of these assumptions are observable in the marketplace and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, or cannot be obtained or corroborated, a security is generally classified as Level 3.

Interest Rate Caps

The fair value of the caps is calculated by determining the total expected asset or liability exposure of the derivatives. Total expected exposure incorporates both the current and potential future exposure of the derivative, derived from using observable inputs, such as yield curves and volatilities, and accordingly are valued using Level 2 inputs.

Interest Rate Swaps

Interest rate swaps are traded in over-the-counter markets where quoted market prices are not readily available. For those interest rate swaps, fair value is determined using internally developed models of a third party that uses primarily market observable inputs, such as yield curves and option volatilities, and accordingly are valued using Level 2 inputs.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recognized impairment.

The following tables present net impairment losses related to nonrecurring fair value measurements of certain assets at June 30, 2021 and December 31, 2020:

	June 30, 2021			
	Level 1	Level 2	Level 3	Loss
Impaired Loans	$ —	$ 886	$ —	$ 287
Totals	$ —	$ 886	$ —	$ 287

	December 31, 2020			
	Level 1	Level 2	Level 3	Loss
Impaired Loans	$ —	$ 80	$ —	$ 50
Totals	$ —	$ 80	$ —	$ 50

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment is measured on loans when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans for which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 2 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Fair Value

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the consolidated balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value of cash flow or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Company.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business. Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts nor is it recorded as an intangible asset on the balance sheet. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following tables present the carrying amount and estimated fair values of financial instruments at June 30, 2021 and December 31, 2020:

	June 30, 2021				
		Fair Value Hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and Due From Banks	$ 92,197	$ 92,197	$ —	$ —	$ 92,197
Bank-Owned Certificates of Deposit	2,368	—	2,395	—	2,395
Securities Available for Sale	402,786	1,010	401,776	—	402,786
FHLB Stock, at Cost	5,832	—	5,832	—	5,832
Loans, Net	2,545,145	—	2,534,398	—	2,534,398
Accrued Interest Receivable	8,728	—	8,728	—	8,728
Interest Rate Caps	4,431	—	4,431	—	4,431
Interest Rate Swaps	1,677	—	1,677	—	1,677
Financial Liabilities:					
Deposits	$ 2,720,906	$ —	$ 2,687,228	$ —	$ 2,687,228
FHLB Advances	57,500	—	58,096	—	58,096
Subordinated Debentures	73,913	—	77,452	—	77,452
Accrued Interest Payable	2,654	—	2,654	—	2,654
Interest Rate Swaps	2,775	—	2,775	—	2,775

	December 31, 2020				
		Fair Value Hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and Due From Banks	$ 160,675	$ 160,675	$ —	$ —	$ 160,675
Bank-Owned Certificates of Deposit	2,860	—	2,908	—	2,908
Securities Available for Sale	390,629	—	390,629	—	390,629
FHLB Stock, at Cost	5,027	—	5,027	—	5,027
Loans, Net	2,282,436	—	2,309,421	—	2,309,421
Accrued Interest Receivable	9,172	—	9,172	—	9,172
Interest Rate Caps	2,834	—	2,834	—	2,834
Interest Rate Swaps	2,757	—	2,757	—	2,757
Financial Liabilities:					
Deposits	$ 2,501,636	$ —	$ 2,509,148	$ —	$ 2,509,148
Notes Payable	11,000	—	11,001	—	11,001
FHLB Advances	57,500	—	58,830	—	58,830
Subordinated Debentures	73,739	—	74,769	—	74,769
Accrued Interest Payable	1,615	—	1,615	—	1,615
Interest Rate Swaps	6,167	—	6,167	—	6,167

The following methods and assumptions were used by the Company to estimate fair value of consolidated financial statements not previously discussed.

Cash and due from banks – The carrying amount of cash and cash equivalents approximates their fair value.

Bank-owned certificates of deposit – Fair values of bank-owned certificates of deposit are estimated using the discounted cash flow analysis based on current rates for similar types of deposits.

FHLB stock – The carrying amount of FHLB stock approximates its fair value.

Loans, Net – Fair values for loans are estimated based on discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Accrued interest receivable – The carrying amount of accrued interest receivable approximates its fair value since it is short term in nature and does not present anticipated credit concerns.

Deposits – The fair values disclosed for demand deposits without stated maturities (interest and noninterest transaction, savings, and money market accounts) are equal to the amount payable on demand at the reporting date (their carrying amounts). Fair values for the fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal funds purchased – The carrying amount of federal funds purchased approximates the fair value.

Notes payable and subordinated debentures – The fair values of the Company’s notes payable and subordinated debt are estimated using a discounted cash flow analysis, based on the Company’s current incremental borrowing rate for similar types of borrowing arrangements.

FHLB advances – The fair values of the Company’s FHLB advances are estimated using discounted cash flow analysis based on the Company’s current incremental borrowing rates for similar types of borrowing agreements.

Accrued interest payable – The carrying amount of accrued interest payable approximates its fair value since it is short term in nature.

Off-balance sheet instruments – Fair values of the Company's off-balance sheet instruments (lending commitments and unused lines of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the counterparties' credit standing and discounted cash flow analysis. The fair value of these off-balance-sheet items approximates the recorded amounts of the related fees and was not material at June 30, 2021 and December 31, 2020.

Limitations – The fair value of a financial instrument is the current amount that would be exchanged between market participants, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Note 13: Subsequent Events

Subordinated Debentures

On July 8, 2021, the Company issued $30,000 of subordinated debentures at an initial fixed interest rate of 3.25% which is payable semi-annually. Beginning July 15, 2026, the interest rate converts to a variable interest rate equal to the three-month term SOFR, plus 2.52%, which is payable quarterly. The subordinated debentures are redeemable by the Company, in whole or in part, on or after July 15, 2026 and mature on July 15, 2031.

In July of 2021, the Company redeemed $11,250 of the $25,000 outstanding of its Fixed-to-Floating Rate Subordinated Notes due 2027 (the "2027 Notes"). The early redemption of the 2027 Notes was recorded as a loss on the extinguishment of subordinated debt, included in noninterest expense, in the amount of $582, consisting of $532 in prepayment penalties and $50 in unamortized issuance costs.

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

General

The following discussion explains the Company's financial condition and results of operations as of and for the three and six months ended June 30, 2021. Annualized results for these interim periods may not be indicative of results for the full year or future periods. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report and the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission, or the SEC, on March 11, 2021.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to the anticipated future performance of the Company. These statements are often, but not always, identified by words such as "may", "might", "should", "could", "predict", "potential", "believe", "expect", "continue", "will", "anticipate", "seek", "estimate", "intend", "plan", "projection", "would", "annualized", "target" and "outlook", or the negative version of those words or other comparable words of a future or forward-looking nature. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- loan concentrations in our loan portfolio;
- the overall health of the local and national real estate market;
- business and economic conditions generally and in the financial services industry, nationally and within our market area;
- the ability to successfully manage credit risk;
- the ability to maintain an adequate level of allowance for loan losses;
- new or revised accounting standards, including as a result of the implementation of the new Current Expected Credit Loss standard;
- the concentration of large loans to certain borrowers;
- the ability to successfully manage liquidity risk;
- the dependence on non-core funding sources and our cost of funds;
- the concentration of large deposits from certain clients;
- the ability to raise additional capital to implement our business plan;
- the ability to implement our growth strategy and manage costs effectively;
- the composition of senior leadership team and the ability to attract and retain key personnel;
- 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;
- competition in the financial services industry;
- severe weather, natural disasters, wide spread disease or pandemics (including the COVID-19 pandemic), acts of war or terrorism, civil unrest or other adverse external events;
- developments and uncertainty related to the future use and availability of some reference rates, such as the London Interbank Offered Rate, as well as other alternative reference rates;
- the effectiveness of the risk management framework;
- the commencement and outcome of litigation and other legal proceedings and regulatory actions against us;
- the extensive regulatory framework that applies to us;
- the impact of recent and future legislative and regulatory changes;
- interest rate risk;
- fluctuations in the values of the securities held in our securities portfolio;
- the negative effects of the COVID-19 pandemic, including its effects on the economic environment, our clients and our operations, as well as any changes to federal, state or local government laws, regulations or orders in response to the pandemic; and
- changes to U.S. tax laws, regulations and guidance

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. In addition, past results of operations are not necessarily indicative of future results. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Overview

The Company is a financial holding company headquartered in St. Louis Park, Minnesota. The principal sources of funds for loans and investments are transaction, savings, time, and other deposits, and short-term and long-term borrowings. The Company's principal sources of income are interest and fees collected on loans, interest and dividends earned on investment securities and service charges. The Company's principal expenses are interest paid on deposit accounts and borrowings, employee compensation and other overhead expenses. The Company's simple, efficient business model of providing responsive support and unconventional experiences to clients continues to be the underlying principle that drives the Company's profitable growth.

Information Regarding COVID-19 Impact

Financial Position and Results of Operations. The novel coronavirus, or COVID-19, pandemic has continued to create uncertainty and extraordinary change for the Company, its clients, its communities and the country as a whole. Vaccines have been rolled out nationwide, however the situation remains fluid and management cannot estimate the duration and full impact of the COVID-19 pandemic on the economy, financial markets and the Company's financial condition and results of operations.

Effects on the Company's Market Area. The Company's primary banking market area is the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area. Minnesota has been taking steps to reopen throughout the second quarter of 2021. Restrictions around capacity and distancing limits related to indoor events and gatherings ended on May 28, 2021 and the indoor mask-wearing mandate ended on July 1, 2021. As COVID-19 cases recede from previous highs, more people get vaccinated every day and vaccines are readily available to all who want them. As a result, Minnesota has started to return to pre-pandemic levels of activity.

Active Management of Credit Risk. The Company has modified its internal policies to increase oversight and analysis of all credits, especially in vulnerable industries such as hospitality and restaurants, to proactively monitor evolving credit risk. The Company has not yet experienced charge-offs related to the COVID-19 pandemic, but the continued uncertainty regarding the severity and duration of the pandemic and related economic effects has and will continue to affect the Company's estimate of its allowance for loan losses and resulting provision for loan losses. The Company will continue to monitor credits closely while working with clients to provide relief when appropriate.

COVID-19 Related Loan Modifications and PPP Lending. The Company developed programs for clients who experienced business and personal disruptions due to the COVID-19 pandemic by providing interest-only modifications, loan payment deferrals, and extended amortization modifications. In accordance with regulatory guidance and the CARES Act, qualifying loans modified in response to the COVID-19 pandemic are not considered TDRs. The Company had 19 modified loans totaling $33.9 million outstanding as of June 30, 2021, representing 1.4% of the total loan portfolio, excluding PPP loans.

In a further effort to assist both existing and new clients, the Company participated in both the first and second rounds of the SBA's PPP, which stemmed from the CARES Act that was signed into law on March 27, 2020, and reopened as authorized by the Economic Aid to Hard-Hit Small Businesses, Non-Profits, and Venues Act, or Economic Aid Act, which was signed into law on December 27, 2020. As of June 30, 2021, $27.2 million of round one PPP loans and $71.9 million of round two PPP loans remained outstanding for total outstanding PPP principal balances of $99.1 million. The Company recognized $1.4 million and $2.9 million of net origination fees associated with the program during the three and six months ended June 30, 2021, respectively.

Processes, Controls, and Business Continuity. As of June 30, 2021, all seven Bank branches were open and fully operational and employees have returned to the office. Despite the recent easing of many federal, state and local government guidelines regarding COVID-19, the Company continues to take precautions to keep employees and clients safe, including providing masks and hand sanitizer, increasing cleaning efforts and requiring employees with COVID-19 symptoms to quarantine away from the office. In addition, the Company will continue to leverage its investments in technology, digital platforms, and electronic banking to allow clients and employees to communicate and transact with minimal interruption. Additional information about the Company's COVID-19 pandemic assistance programs, including relevant disclosures and up-to-date information, is maintained at bridgewaterbankmn.com.

Critical Accounting Policies and Estimates

The consolidated financial statements of the Company are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 of the notes to the consolidated financial statements included as a part of the Company's Annual Report on Form 10-K. Certain policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may significantly affect the reported results and financial position for the current period or in future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded or adjusted to reflect fair value. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on the future financial condition and results of operations of the Company. Management has discussed each critical accounting policy and the methodology for the identification and determination of critical accounting policies with the Company's Audit Committee.

The JOBS Act permits the Company an extended transition period for complying with new or revised accounting standards affecting public companies. The Company has elected to take advantage of this extended transition period, which means that the financial statements included in this report, as well as any financial statements filed in the future, will not be subject to all new or revised accounting standards generally applicable to public companies for the transition period for so long as the Company remains an emerging growth company or until the Company affirmatively and irrevocably opts out of the extended transition period under the JOBS Act.

The following is a discussion of the critical accounting policies and significant estimates that require the Company to make complex and subjective judgements.

Allowance for Loan Losses

The allowance for loan losses, sometimes referred to as the "allowance," is established through a provision for loan losses which is charged to expense. Loan losses are charged against the allowance when management determines all or a portion of the loan balance to be uncollectible. Subsequent recoveries, if any, are credited to the allowance for cash received on previously charged-off amounts. If the allowance is considered inadequate to absorb future loan losses on existing loans for any reason, including but not limited to, increases in the size of the loan portfolio, increases in charge-offs or changes in the risk characteristics of the loan portfolio, then the provision for loan losses is increased.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan agreement. The collection of all amounts due according to original contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price, or the fair value of the underlying collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral dependent.

Investment Securities Impairment

Periodically, the Company may need to assess whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other than temporary basis. In any such instance, the Company would consider many factors, including the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and the near-term prospects of the issuer, expected cash flows, and the intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. Securities on which there is an unrealized loss that is deemed to be other than temporary are written down to fair value, with the write-down recorded as a realized loss in securities gains (losses).

The fair values of investment securities are generally determined by various pricing models. The Company evaluates the methodologies used to develop the resulting fair values. The Company performs a semi-annual analysis on the pricing of investment securities to ensure that the prices represent reasonable estimates of fair value. The procedures include initial and ongoing reviews of pricing methodologies and trends. The Company seeks to ensure prices represent reasonable estimates of fair value through the use of broker quotes, current sales transactions from the portfolio and pricing techniques, which are based on the net present value of future expected cash flows discounted at a rate of return market participants would require. As a result of this analysis, if the Company determines there is a more appropriate fair value, the price is adjusted accordingly.

Fair Value of Financial Instruments

The fair value of a financial instrument 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 in the market in which the reporting entity transacts business. A framework has been established for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and includes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the measurement date. The Company estimates the fair value of financial instruments using a variety of valuation methods. When financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value and are classified as Level 1. When financial instruments, such as investment securities and derivatives, are not actively traded, the Company determines fair value based on various sources and may apply matrix pricing with observable prices for similar instruments where a price for the identical instrument is not observable. The fair values of these financial instruments, which are classified as Level 2, are determined by pricing models that consider observable market data such as interest rate volatilities, yield curve, credit spreads, prices from external market data providers and/or nonbinding broker-dealer quotations. When observable inputs do not exist, the Company estimates fair value based on available market data, and these values are classified as Level 3. Imprecision in estimating fair values can impact the carrying value of assets and liabilities and the amount of revenue or loss recorded.

Deferred Tax Asset

The Company uses the asset and liability method of accounting for income taxes as prescribed by GAAP. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. If currently available information indicates it is “more likely than not” that the deferred tax asset will not be realized, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Accounting for deferred income taxes is a critical accounting estimate because the Company exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. Management’s determination of the realization of deferred tax assets is based upon management’s judgment of various future events and uncertainties, including the timing and amount of future income, reversing temporary differences which may offset, and the implementation of various tax plans to maximize realization of the deferred tax asset. These judgments and estimates are inherently subjective and reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require the Company to record a valuation allowance against the deferred tax assets. A valuation allowance would result in additional income tax expense in such period, which would negatively affect earnings.

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Operating Results Overview

The following table summarizes certain key financial results for the periods indicated:

	As of and for the Three Months Ended				
	June 30, 2021	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**	**June 30, 2020**
Per Common Share Data					
Basic Earnings Per Share	$ 0.39	$ 0.38	$ 0.18	$ 0.25	$ 0.26
Diluted Earnings Per Share	0.38	0.37	0.17	0.25	0.26
Book Value Per Share	10.33	9.92	9.43	9.25	8.92
Tangible Book Value Per Share (1)	10.22	9.80	9.31	9.13	8.80
Basic Weighted Average Shares Outstanding	28,040,762	28,017,366	28,179,768	28,683,855	28,676,441
Diluted Weighted Average Shares Outstanding	29,128,181	28,945,212	28,823,384	29,174,601	29,165,157
Shares Outstanding at Period End	28,162,777	28,132,929	28,143,493	28,710,775	28,837,560
Selected Performance Ratios					
Return on Average Assets (Annualized)	1.43 %	1.47 %	0.70 %	1.05 %	1.17 %
Pre-Provision Net Revenue Return on Average Assets (Annualized) (1)	2.07	2.15	2.30	1.94	2.00
Return on Average Common Equity (Annualized)	15.40	15.87	7.45	10.84	11.98
Return on Average Tangible Common Equity (Annualized) (1)	15.58	16.06	7.55	10.98	12.14
Average Common Equity to Average Assets	9.31	9.28	9.44	9.71	9.73
Yield on Interest Earning Assets	4.17	4.31	4.46	4.30	4.45
Yield on Total Loans, Gross	4.56	4.74	4.89	4.73	4.85
Cost of Interest Bearing Liabilities	0.96	1.04	1.24	1.50	1.58
Cost of Total Deposits	0.54	0.59	0.69	0.87	0.99
Net Interest Margin (2)	3.52	3.60	3.61	3.28	3.38
Core Net Interest Margin (1)(2)	3.31	3.34	3.29	3.14	3.22
Efficiency Ratio (1)	42.0	41.2	59.0	42.3	48.6
Adjusted Efficiency Ratio (1)	41.5	40.7	36.6	41.7	40.4
Noninterest Expense to Average Assets (Annualized)	1.50	1.51	2.16	1.42	1.64
Adjusted Noninterest Expense to Average Assets (Annualized) (1)	1.48	1.49	1.34	1.40	1.37
Loan to Deposit Ratio	95.3	91.9	93.0	99.4	97.8
Core Deposits to Total Deposits (3)	81.2	83.5	78.1	77.1	75.7
Tangible Common Equity to Tangible Assets (1)	9.10	8.99	8.96	9.46	9.23

(1) Represents a non-GAAP financial measure. See "Non-GAAP Financial Measures" for further details.
(2) Amounts calculated on a tax-equivalent basis using the statutory federal tax rate of 21%.
(3) Core deposits are defined as total deposits less brokered deposits and certificates of deposit greater than $250,000.

Selected Financial Data

The following tables summarize certain selected financial data as of and for the periods indicated:

(dollars in thousands)	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Selected Balance Sheet Data					
Total Assets	$ 3,162,612	$ 3,072,359	$ 2,927,345	$ 2,774,564	$ 2,754,463
Total Loans, Gross	2,594,186	2,426,123	2,326,428	2,259,228	2,193,778
Allowance for Loan Losses	37,591	35,987	34,841	31,381	27,633
Goodwill and Other Intangibles	3,200	3,248	3,296	3,344	3,391
Deposits	2,720,906	2,638,654	2,501,636	2,273,044	2,242,051
Tangible Common Equity (1)	287,630	275,923	262,109	262,088	253,799
Total Shareholders' Equity	290,830	279,171	265,405	265,432	257,190
Average Total Assets - Quarter-to-Date	3,076,712	2,940,262	2,816,032	2,711,755	2,622,272
Average Common Equity - Quarter-to-Date	286,311	272,729	265,716	263,195	255,109

(1) Represents a non-GAAP financial measure. See "Non-GAAP Financial Measures" for further details.

	For the Three Months Ended				
(dollars in thousands)	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Selected Income Statement Data					
Interest Income	$ 31,147	$ 30,440	$ 30,699	$ 28,493	$ 28,166
Interest Expense	4,859	5,045	5,858	6,814	6,824
Net Interest Income	26,288	25,395	24,841	21,679	21,342
Provision for Loan Losses	1,600	1,100	3,900	3,750	3,000
Net Interest Income after Provision for Loan Losses	24,688	24,295	20,941	17,929	18,342
Noninterest Income	1,603	1,008	986	1,157	1,977
Noninterest Expense	11,477	10,923	15,258	9,672	10,711
Income Before Income Taxes	14,814	14,380	6,669	9,414	9,608
Provision for Income Taxes	3,821	3,709	1,690	2,240	2,010
Net Income	$ 10,993	$ 10,671	$ 4,979	$ 7,174	$ 7,598

Discussion and Analysis of Results of Operations

Net Income

Net income was $11.0 million for the second quarter of 2021, a 44.7% increase compared to net income of $7.6 million for the second quarter of 2020. Net income per diluted common share for the second quarter of 2021 was $0.38, a 44.9% increase compared to $0.26 per diluted common share for the second quarter of 2020. Net income was $21.7 million for the six months ended June 30, 2021, a 44.0% increase compared to net income of $15.0 million for the six months ended June 30, 2020. Net income per diluted common share for the six months ended June 30, 2021 was $0.75, a 45.5% increase compared to $0.51 per diluted common share for the six months ended June 30, 2020.

Net Interest Income

The Company's primary source of revenue is net interest income, which is impacted by the level of interest earning assets and related funding sources, as well as changes in the level of interest rates. The difference between the average yield on earning assets and the average rate paid for interest bearing liabilities is the net interest spread. Noninterest bearing sources of funds, such as demand deposits and shareholders' equity, also support earning assets. The impact of the noninterest bearing sources of funds is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. Both the net interest margin and net interest spread are presented on a tax-equivalent basis, which means that tax-free interest income has been adjusted to pretax-equivalent income, assuming a 21% federal tax rate. Management's ability to respond to changes in interest rates by using effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and the momentum of the Company's primary source of earnings. In response to the COVID-19 pandemic, the Federal Open Market Committee, or FOMC, decreased the targeted federal funds rate by a total of 150 basis points in March 2020. This decrease may impact the comparability of net interest income between 2021 and 2020.

Average Balances and Yields

The following tables present, for the three and six months ended June 30, 2021 and 2020, the average balances of each principal category of assets, liabilities and shareholders' equity, and an analysis of net interest income. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of net deferred loan origination fees and costs accounted for as yield adjustments. These tables are presented on a tax-equivalent basis, if applicable.

	For the Three Months Ended					
	June 30, 2021			June 30, 2020		
	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate
(dollars in thousands)						
Interest Earning Assets:						
Cash Investments	$ 88,067	$ 33	0.15 %	$ 109,073	$ 37	0.14 %
Investment Securities:						
Taxable Investment Securities	314,049	1,647	2.10	203,559	1,304	2.58
Tax-Exempt Investment Securities (1)	77,029	842	4.38	91,793	996	4.37
Total Investment Securities	391,078	2,489	2.55	295,352	2,300	3.13
Paycheck Protection Program Loans (2)	149,312	1,767	4.75	139,235	873	2.52
Loans (1)(2)	2,384,759	27,011	4.54	2,013,163	25,070	5.01
Total Loans	2,534,071	28,778	4.56	2,152,398	25,943	4.85
Federal Home Loan Bank Stock	6,221	54	3.51	10,469	125	4.81
Total Interest Earning Assets	3,019,437	31,354	4.17 %	2,567,292	28,405	4.45 %
Noninterest Earning Assets	57,275			54,980		
Total Assets	$ 3,076,712			$ 2,622,272		
Interest Bearing Liabilities:						
Deposits:						
Interest Bearing Transaction Deposits	$ 421,132	$ 520	0.50 %	$ 272,565	$ 377	0.56 %
Savings and Money Market Deposits	764,632	940	0.49	521,313	1,327	1.02
Time Deposits	332,346	1,075	1.30	388,357	2,122	2.20
Brokered Deposits	379,768	978	1.03	319,711	1,344	1.69
Total Interest Bearing Deposits	1,897,878	3,513	0.74	1,501,946	5,170	1.38
Federal Funds Purchased	9,932	6	0.24	9	—	0.72
Notes Payable	—	—	—	12,000	111	3.72
FHLB Advances	57,500	228	1.59	193,819	1,064	2.21
Subordinated Debentures	73,862	1,112	6.04	31,228	479	6.17
Total Interest Bearing Liabilities	2,039,172	4,859	0.96 %	1,739,002	6,824	1.58 %
Noninterest Bearing Liabilities:						
Noninterest Bearing Transaction Deposits	732,299			603,456		
Other Noninterest Bearing Liabilities	18,930			24,705		
Total Noninterest Bearing Liabilities	751,229			628,161		
Shareholders' Equity	286,311			255,109		
Total Liabilities and Shareholders' Equity	$ 3,076,712			$ 2,622,272		
Net Interest Income / Interest Rate Spread		26,495	3.21 %		21,581	2.87 %
Net Interest Margin (3)			3.52 %			3.38 %
Taxable Equivalent Adjustment:						
Tax-Exempt Investment Securities and Loans		(207)			(239)	
Net Interest Income		$ 26,288			$ 21,342	

(1) Interest income and average rates for tax-exempt investment securities and loans are presented on a tax-equivalent basis, assuming a federal income tax rate of 21%.
(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest margin includes the tax equivalent adjustment and represents the annualized results of: (i) the difference between interest income on interest earning assets and the interest expense on interest bearing liabilities, divided by (ii) average interest earning assets for the period.

	For the Six Months Ended					
	June 30, 2021			June 30, 2020		
(dollars in thousands)	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate
Interest Earning Assets:						
Cash Investments	$ 96,724	$ 67	0.14 %	$ 69,267	$ 96	0.28 %
Investment Securities:						
Taxable Investment Securities	307,898	3,371	2.21	195,873	2,691	2.76
Tax-Exempt Investment Securities (1)	78,985	1,723	4.40	93,260	2,020	4.36
Total Investment Securities	386,883	5,094	2.66	289,133	4,711	3.28
Paycheck Protection Program Loans (2)	149,098	3,631	4.91	70,037	873	2.51
Loans (1)(2)	2,313,295	53,085	4.63	1,983,641	50,220	5.09
Total Loans	2,462,393	56,716	4.64	2,053,678	51,093	5.00
Federal Home Loan Bank Stock	5,636	132	4.74	10,370	225	4.37
Total Interest Earning Assets	2,951,636	62,009	4.24 %	2,422,448	56,125	4.66 %
Noninterest Earning Assets	57,228			47,208		
Total Assets	$ 3,008,864			$ 2,469,656		
Interest Bearing Liabilities:						
Deposits:						
Interest Bearing Transaction Deposits	$ 392,732	$ 942	0.48 %	$ 259,704	$ 808	0.63 %
Savings and Money Market Deposits	744,480	1,949	0.53	527,445	3,232	1.23
Time Deposits	338,497	2,341	1.39	382,256	4,299	2.26
Brokered Deposits	391,167	1,952	1.01	269,000	2,555	1.91
Total Interest Bearing Deposits	1,866,876	7,184	0.78	1,438,405	10,894	1.52
Federal Funds Purchased	4,993	6	0.24	12,422	107	1.74
Notes Payable	3,343	61	3.66	12,253	226	3.71
FHLB Advances	57,500	456	1.60	183,099	2,091	2.30
Subordinated Debentures	73,819	2,197	6.00	27,986	872	6.27
Total Interest Bearing Liabilities	2,006,531	9,904	1.00 %	1,674,165	14,190	1.70 %
Noninterest Bearing Liabilities:						
Noninterest Bearing Transaction Deposits	704,391			523,828		
Other Noninterest Bearing Liabilities	18,384			18,708		
Total Noninterest Bearing Liabilities	722,775			542,536		
Shareholders' Equity	279,558			252,955		
Total Liabilities and Shareholders' Equity	$ 3,008,864			$ 2,469,656		
Net Interest Income / Interest Rate Spread		52,105	3.24 %		41,935	2.96 %
Net Interest Margin (3)			3.56 %			3.48 %
Taxable Equivalent Adjustment:						
Tax-Exempt Investment Securities and Loans		(422)			(491)	
Net Interest Income		$ 51,683			$ 41,444	

(1) Interest income and average rates for tax-exempt investment securities and loans are presented on a tax-equivalent basis, assuming a federal income tax rate of 21%.
(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest margin includes the tax equivalent adjustment and represents the annualized results of: (i) the difference between interest income on interest earning assets and the interest expense on interest bearing liabilities, divided by (ii) average interest earning assets for the period.

Interest Rates and Operating Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest earning assets and interest bearing liabilities, as well as changes in average interest rates. The following tables present the effect that these factors had on the interest earned on interest earning assets and the interest incurred on interest bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. The changes not attributable specifically to either volume or rate have been allocated to the changes due to volume. The following tables present the changes in the volume and rate of interest bearing assets and liabilities for the three months ended June 30, 2021, compared to the three months ended June 30, 2020, and for the six months ended June 30, 2021, compared to the six months ended June 30, 2020.

	Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020		
	Change Due To:		Interest
(dollars in thousands)	Volume	Rate	Variance
Interest Earning Assets:			
Cash Investments	$ (7)	$ 3	$ (4)
Investment Securities:			
Taxable Investment Securities	583	(240)	343
Tax-Exempt Investment Securities	(158)	4	(154)
Total Securities	425	(236)	189
Loans:			
Paycheck Protection Program Loans	122	772	894
Loans	4,278	(2,337)	1,941
Total Loans	4,400	(1,565)	2,835
Federal Home Loan Bank Stock	(37)	(34)	(71)
Total Interest Earning Assets	$ 4,781	$ (1,832)	$ 2,949
Interest Bearing Liabilities:			
Interest Bearing Transaction Deposits	$ 184	$ (41)	$ 143
Savings and Money Market Deposits	303	(690)	(387)
Time Deposits	(174)	(873)	(1,047)
Brokered Deposits	158	(524)	(366)
Total Deposits	471	(2,128)	(1,657)
Federal Funds Purchased	6	—	6
Notes Payable	(111)	—	(111)
FHLB Advances	(536)	(300)	(836)
Subordinated Debentures	643	(10)	633
Total Interest Bearing Liabilities	473	(2,438)	(1,965)
Net Interest Income	$ 4,308	$ 606	$ 4,914

	Six Months Ended June 30, 2021 Compared with Six Months Ended June 30, 2020		
	Change Due To:		Interest
(dollars in thousands)	Volume	Rate	Variance
Interest Earning Assets:			
Cash Investments	$ 19	$ (48)	$ (29)
Investment Securities:			
Taxable Investment Securities	1,219	(539)	680
Tax-Exempt Investment Securities	(316)	19	(297)
Total Securities	903	(520)	383
Loans:			
Paycheck Protection Program Loans	1,923	835	2,758
Loans	7,426	(4,561)	2,865
Total Loans	9,349	(3,726)	5,623
Federal Home Loan Bank Stock	(112)	19	(93)
Total Interest Earning Assets	$ 10,159	$ (4,275)	$ 5,884
Interest Bearing Liabilities:			

Interest Bearing Transaction Deposits	$ 316	$ (182)	$ 134
Savings and Money Market Deposits	560	(1,843)	(1,283)
Time Deposits	(314)	(1,644)	(1,958)
Brokered Deposits	602	(1,205)	(603)
Total Deposits	1,164	(4,874)	(3,710)
Federal Funds Purchased	(9)	(92)	(101)
Notes Payable	(162)	(3)	(165)
FHLB Advances	(1,000)	(635)	(1,635)
Subordinated Debentures	1,362	(37)	1,325
Total Interest Bearing Liabilities	1,355	(5,641)	(4,286)
Net Interest Income	$ 8,804	$ 1,366	$ 10,170

Comparison of Interest Income, Interest Expense, and Net Interest Margin

Second Quarter of 2021 Compared to Second Quarter of 2020

Net interest income was $26.3 million for the second quarter of 2021, an increase of $4.9 million, or 23.2%, compared to $21.3 million for the second quarter of 2020. The increase in net interest income was primarily due to growth in average interest earning assets, lower rates paid on deposits, and the recognition of PPP loan origination fees, offset partially by declining yields on loans. The increase in average interest earning assets was primarily due to strong organic growth in the loan portfolio, as well as continued purchases of investment securities.

Net interest margin (on a fully tax-equivalent basis) for the second quarter of 2021 was 3.52%, a 14 basis point increase from 3.38% in the second quarter of 2020. Core net interest margin (on a fully tax-equivalent basis), a non-GAAP financial measure which excludes the impact of loan fees and PPP balances, interest, and fees, for the second quarter of 2021 was 3.31%, a 9 basis point increase from 3.22% in the second quarter of 2020.

While the origination volume of PPP loans earning 1.00% negatively impacted net interest margin, the recognition of fees associated with the originations has benefited net interest margin for the past three quarters. The SBA began forgiving PPP loans, which accelerated the recognition of PPP fees starting in the fourth quarter of 2020 and continuing into the second quarter of 2021. The Company recognized $1.4 million of PPP origination fees during the second quarter of 2021, compared to $528,000 during the second quarter of 2020. The elevated fee recognition is illustrated in the 4.75% PPP loan yield for the second quarter of 2021.

The following table summarizes PPP loan originations and net origination fees through June 30, 2021:

	Originated		Outstanding		Program Lifetime	
(dollars in thousands)	**Number of Loans**	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Net Origination Fees Generated**	**Net Origination Fees Earned**
Round One PPP Loans	1,200	$ 181,600	225	$ 27,184	$ 5,706	$ 5,330
Round Two PPP Loans	651	78,386	606	71,888	3,544	498
Totals	1,851	$ 259,986	831	$ 99,072	$ 9,250	$ 5,828

Average interest earning assets for the second quarter of 2021 increased $452.1 million, or 17.6%, to $3.02 billion, from $2.57 billion for the second quarter of 2020. This increase in average interest earning assets was primarily due to strong organic growth in the loan portfolio, as well as continued purchases of investment securities. Average interest bearing liabilities increased $300.2 million, or 17.3%, to $2.04 billion for the second quarter of 2021, from $1.74 billion for the second quarter of 2020. The increase in average interest bearing liabilities was primarily due to an increase in interest bearing deposits and the issuance of subordinated debentures in the second quarter of 2020, offset partially by a decrease in FHLB advances and the payoff of the Company's notes payable.

Average interest earning assets produced a tax-equivalent yield of 4.17% for the second quarter of 2021, compared to 4.45% for the second quarter of 2020. The decline in the yield on interest earning assets was primarily due to the historically low interest rate environment resulting in lower loan and security yields and lower loan fees recognized, offset partially by PPP loan fees recognized and deployment of excess cash balances. The average rate paid on interest bearing liabilities was 0.96% for the second quarter of 2021, compared to 1.58% for the second quarter of 2020 primarily due to lower rates paid on deposits, the payoff of the Company's notes payable and the early extinguishment of $94.0 million of FHLB advances, offset partially by strong growth of interest bearing deposits and additional subordinated debentures.

Interest Income. Total interest income, on a tax-equivalent basis, was $31.4 million for the second quarter of 2021, compared to $28.4 million for the second quarter of 2020. The $2.9 million, or 10.4%, increase in total interest income on a tax-equivalent basis was primarily due to continued organic growth in the loan portfolio and PPP loan income.

Interest income on loans, on a tax-equivalent basis, was $28.8 million for the second quarter of 2021, compared to $25.9 million for the second quarter of 2020. The $2.8 million, or 10.9%, increase was due to a 17.7% increase in the average balance of loans outstanding from continued organic loan growth.

Loan interest income and loan fees remain the primary contributing factors to the changes in yield on interest earning assets. The aggregate loan yield, excluding PPP loans, decreased to 4.54% in the second quarter of 2021, which was 47 basis points lower than 5.01% in the second quarter of 2020. While loan fees have maintained a relatively stable contribution to the aggregate loan yield, the historically low yield curve has resulted in a declining core yield on loans in comparison to prior periods.

The following table presents a summary of interest and fees recognized on loans, excluding PPP loans, for the periods indicated is as follows:

	Three Months Ended				
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Interest	4.37 %	4.50 %	4.59 %	4.69 %	4.76 %
Fees	0.17	0.22	0.28	0.24	0.25
Yield on Loans, Excluding PPP Loans	4.54 %	4.72 %	4.87 %	4.93 %	5.01 %

Interest Expense. Interest expense on interest bearing liabilities decreased $2.0 million, or 28.8%, to $4.9 million for the second quarter of 2021, compared to $6.8 million for the second quarter of 2020. The cost of interest bearing liabilities declined 62 basis points from 1.58% in the second quarter of 2020 to 0.96% in the second quarter of 2021, primarily due to lower rates paid on deposits, the payoff of the Company's notes payable and the early extinguishment of $94.0 million of longer term FHLB advances, offset partially by strong growth of interest bearing deposits and additional subordinated debentures.

Interest expense on deposits was $3.5 million for the second quarter of 2021, a decrease of $1.7 million, or 32.1%, from $5.2 million for the second quarter of 2020. The cost of total deposits declined 45 basis points from 0.99% in the second quarter of 2020, to 0.54% in the second quarter of 2021, primarily due to deposit rate cuts consistent with a lower rate environment and the downward repricing of time deposits. The Company anticipates more opportunities to lower the cost of total deposits due to continued deposit repricing as time deposits mature and the recent success of adding efficient, low-cost brokered deposits.

Interest expense on borrowings decreased $308,000 to $1.3 million for the second quarter of 2021, compared to $1.7 million for the second quarter of 2020. This decrease was primarily due to the payoff of the Company's notes payable and the early extinguishment of $94.0 million of FHLB advances, partially offset by higher average balances of subordinated debentures due to the issuance of $50.0 million of subordinated debentures during the second quarter of 2020.

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

Net interest income was $51.7 million for the six months ended June 30, 2021, an increase of $10.2 million, or 24.7%, compared to $41.4 million for the six months ended June 30, 2020. The increase in net interest income was primarily due to growth in average interest earning assets, lower rates paid on deposits, and the recognition of PPP loan origination fees, offset partially by declining yields on loans.

Net interest margin (on a fully tax-equivalent basis) for the six months ended June 30, 2021 was 3.56%, compared to 3.48% for the six months ended June 30, 2020, an increase of 8 basis points. Core net interest margin (on a fully tax-equivalent basis), a non-GAAP financial measure which excludes the impact of loan fees and PPP balances, interest, and fees, for the six months ended June 30, 2021 was 3.33%, a 4 basis point increase from 3.29% for the six months ended June 30, 2020.

Average interest earning assets for the six months ended June 30, 2021 increased $529.2 million, or 21.8%, to $2.95 billion from $2.42 billion for the six months ended June 30, 2020. This increase in average interest earning assets was primarily due to strong organic growth in the loan portfolio, the funding of round 2 PPP loans, as well as continued purchases of investment securities. Average interest bearing liabilities increased $332.4 million, or 19.9%, to $2.01 billion for the six months ended June 30, 2021, from $1.67 billion for the six months ended June 30, 2020. The increase in average interest bearing liabilities was primarily due to an increase in interest bearing deposits and the issuance of subordinated debentures in the second quarter of 2020, offset partially by a decrease in federal funds purchased, FHLB advances and the payoff of the Company's notes payable.

Average interest earning assets produced a tax-equivalent yield of 4.24% for the six months ended June 30, 2021, compared to 4.66% for the six months ended June 30, 2020. The average rate paid on interest bearing liabilities was 1.00% for the six months ended June 30, 2021, compared to 1.70% for the six months ended June 30, 2020.

Interest Income. Total interest income on a tax-equivalent basis was $62.0 million for the six months ended June 30, 2021, compared to $56.1 million for the six months ended June 30, 2020. The $5.9 million, or 10.5%, increase in total interest income on a tax-equivalent basis was primarily due to continued organic growth in the loan portfolio and PPP loan income.

Interest income on the investment securities portfolio on a fully-tax equivalent basis increased $383,000, or 8.1%, during the six months ended June 30, 2021, compared to the six months ended June 30, 2020, due to a $97.8 million, or 33.8%, increase in average balances between the periods, which was offset partially by a 62 basis point decrease in the aggregate portfolio yield.

Interest income on loans, on a fully-tax equivalent basis, for the six months ended June 30, 2021 was $56.7 million, compared to $51.1 million for the six months ended June 30, 2020. The $5.6 million, or 11.0%, increase was primarily due to a 19.9% increase in the average balance of loans outstanding, which was offset partially by a 36 basis point decrease in the average yield on loans. The increase in the average balance of loans outstanding was due to strong organic loan growth. The decrease in yield on the loan portfolio was primarily driven by lower market interest rates and lower loan fee recognition, offset partially by increased recognition of PPP loan fees.

Interest Expense. Interest expense on interest bearing liabilities decreased $4.3 million, or 30.2%, to $9.9 million for the six months ended June 30, 2021, compared to $14.2 million for the six months ended June 30, 2020, due to lower interest rates paid on both deposits and borrowings.

Interest expense on deposits decreased to $7.2 million for the six months ended June 30, 2021, compared to $10.9 million for the six months ended June 30, 2020. The $3.7 million, or 34.1%, decrease in interest expense on deposits was primarily due to a 74 basis point decrease in the average rate paid, even as the average balance of deposits increased 29.8%. The decrease in the average rate paid was primarily due to the impact of lower market interest rates.

The increase in the average balance of interest bearing deposits resulted primarily from increases in interest bearing transaction deposits, savings and money market deposits and brokered deposits.

Interest expense on borrowings decreased $576,000 to $2.7 million for the six months ended June 30, 2021, compared to $3.3 million for the six months ended June 30, 2020. This decrease was primarily due to lower average balance of FHLB advances and federal funds purchased, as well as the payoff of the Company's notes payable, offset partially by the issuance of subordinated debentures in the second quarter of 2020.

Provision for Loan Losses

The provision for loan losses was $1.6 million for the second quarter of 2021, a decrease of $1.4 million, compared to the provision for loan losses of $3.0 million for the second quarter of 2020. The provision for loan losses was $2.7 million for the six months ended June 30, 2021, a decrease of $2.4 million compared to the provision for loan losses of $5.1 million for the six months ended June 30, 2020. The decrease in the provision for loan losses compared to both prior periods related to changes in economic conditions.

The allowance for loan losses to total loans was 1.45% at June 30, 2021, compared to 1.26% at June 30, 2020. The allowance for loan losses to total loans, excluding PPP loans, was 1.50% at June 30, 2021, compared to 1.37% at June 30, 2020. The increase in the allowance for loan losses to total loans ratio between the periods was primarily due to economic uncertainties and evolving risks driven by the impact of the COVID-19 pandemic.

As an emerging growth company, the Company is not subject to Accounting Standards Update No. 2016-13 *"Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments,"* or CECL, until January 1, 2023.

The following table presents the activity in the allowance for loan losses for the three and six month periods ended June 30, 2021 and 2020:

	Three Months Ended		Six Months Ended	
(dollars in thousands)	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Balance at Beginning of Period	$ 35,987	$ 24,585	$ 34,841	$ 22,526
Provision for Loan Losses	1,600	3,000	2,700	5,100
Charge-offs	(3)	(1)	(17)	(48)
Recoveries	7	49	67	55
Balance at End of Period	$ 37,591	$ 27,633	$ 37,591	$ 27,633

Noninterest Income

Noninterest income was $1.6 million for the second quarter of 2021, a decrease of $374,000 from $2.0 million for the second quarter of 2020. The decrease was primarily due to lower gains on sales of securities, partially offset by increased customer service fees and other income. Noninterest income was $2.6 million for the six months ended June 30, 2021, a decrease of $1.1 million, compared to $3.7 million for the six months ended June 30, 2020. The decrease was primarily due to lower gains on sales of securities and swap fees.

The following table presents the major components of noninterest income for the three and six months ended June 30, 2021, compared to the three and six months ended June 30, 2020:

(dollars in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Increase/ (Decrease)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Increase/ (Decrease)
Noninterest Income:						
Customer Service Fees	$ 231	$ 135	$ 96	$ 465	$ 375	$ 90
Net Gain on Sales of Securities	702	1,361	(659)	702	1,364	(662)
Letter of Credit Fees	231	265	(34)	558	539	19
Debit Card Interchange Fees	141	99	42	271	191	80
Swap Fees	—	—	—	—	907	(907)
Other Income	298	117	181	615	320	295
Totals	$ 1,603	$ 1,977	$ (374)	$ 2,611	$ 3,696	$ (1,085)

Noninterest Expense

Second Quarter of 2021 Compared to Second Quarter of 2020

Noninterest expense was $11.5 million for the second quarter of 2021, an increase of $766,000 from $10.7 million for the second quarter of 2020. The increase was primarily driven by a $1.2 million increase in salaries and employee benefits as the result of merit increases and increased staff to meet the needs of the Company’s growth, and a $308,000 increase in occupancy and equipment expense. The overall increase in noninterest expense was partially offset by a $1.4 million decrease in FHLB advance prepayment fees incurred in the second quarter of 2020, as well as a decrease of $222,000 in amortization of tax credit investments.

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

Noninterest expense was $22.4 million for the six months ended June 30, 2021, an increase of $1.9 million, or 9.5%, from $20.5 million for the six months ended June 30, 2020. The increase was primarily driven by a $1.8 million increase in salaries and employee benefits, a $650,000 increase in occupancy and equipment expense, and a $419,000 increase in information technology expense. The overall increase in noninterest expense was partially offset by a $1.4 million decrease in FHLB advance prepayment fees.

Full-time equivalent employees increased from 173 at the end of the second quarter of 2020 to 214 at the end of the second quarter of 2021. The Company continues to attract strategic hires in lending, deposit gathering, technology, risk management, and other supportive roles which demonstrates the Company’s status as a preferred employer amidst ongoing market disruption.

Efficiency Ratio. The efficiency ratio, a non-GAAP financial measure, reports total noninterest expense, less amortization of intangible assets, as a percentage of net interest income plus total noninterest income, less gains (losses) on sales of securities. Management believes this non-GAAP financial measure provides a meaningful comparison of operational performance and facilitates investors’ assessments of business performance and trends in comparison to peers in the banking industry. The Company’s efficiency ratio, and its comparability to some peers, is negatively impacted by the amortization of tax credit investments, as well as other non-routine items, within noninterest expense.

The efficiency ratio was 42.0% for the second quarter of 2021, compared to 48.6% for the second quarter of 2020. Excluding the impact of certain non-routine income and expenses from noninterest expense, the adjusted efficiency ratio, a non-GAAP financial measure, increased to 41.5% for the second quarter of 2021, compared to 40.4% for the second quarter of 2020. The adjusted efficiency ratio for the six months ended June 30, 2021 and 2020 was 41.1% and 42.2%, respectively. The efficiencies of the Company's "branch-light" model have positioned the Company well for when the pandemic ends, and going forward, will provide more flexibility for the Company to make significant investments in technology as the industry adapts to evolving client behavior.

The following table presents the major components of noninterest expense for the three and six months ended June 30, 2021, compared to the three and six months ended June 30, 2020:

(dollars in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Increase/ (Decrease)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Increase/ (Decrease)
Noninterest Expense:						
Salaries and Employee Benefits	$ 7,512	$ 6,348	$ 1,164	$ 14,614	$ 12,802	$ 1,812
Occupancy and Equipment	980	672	308	2,035	1,385	650
FDIC Insurance Assessment	290	168	122	605	358	247
Data Processing	300	238	62	591	467	124
Professional and Consulting Fees	552	423	129	1,096	908	188
Information Technology and Telecommunications	549	326	223	1,011	592	419
Marketing and Advertising	314	85	229	600	551	49
Intangible Asset Amortization	47	47	—	95	95	—
Amortization of Tax Credit Investments	140	362	(222)	258	447	(189)
FHLB Advance Prepayment Fees	—	1,430	(1,430)	—	1,430	(1,430)
Other Expense	793	612	181	1,495	1,422	73
Totals	$ 11,477	$ 10,711	$ 766	$ 22,400	$ 20,457	$ 1,943

Income Tax Expense

The provision for income taxes includes both federal and state taxes. Fluctuations in effective tax rates reflect the differences in the inclusion or deductibility of certain income and expenses for income tax purposes and the recognition of tax credits. The Company’s future effective income tax rate will fluctuate based on the mix of taxable and tax-free investments and loans, the recognition and availability of tax credit investments, and overall taxable income.

Income tax expense was $3.8 million for the second quarter of 2021, compared to $2.0 million for the second quarter of 2020. The effective combined federal and state income tax rate for the second quarter of 2021 was 25.8%, compared to 20.9% for the second quarter of 2020. Income tax expense was $7.5 million for the six months ended June 30, 2021, compared to $4.5 million for the six months ended June 30, 2020. The effective combined federal and state income tax rate for the six months ended June 30, 2021 and 2020 was 25.8% and 23.2%, respectively. The higher effective combined rate compared to both prior periods was due to fewer tax credits being recognized.

Financial Condition

Assets

Total assets at June 30, 2021 were $3.16 billion, an increase of $235.3 million, or 8.0%, over total assets of $2.93 billion at December 31, 2020 and an increase of $408.1 million, or 14.8%, over total assets of $2.75 billion at June 30, 2020. The growth in both periods was primarily driven by organic growth in the loan portfolio and purchases of investment securities.

Total gross loans at June 30, 2021 were $2.59 billion, an increase of $267.8 million, or 11.5%, over total gross loans of $2.33 billion at December 31, 2020, and an increase of $400.4 million, or 18.3%, over total gross loans of $2.19 billion at June 30, 2020. The Company’s continued strong loan growth has been driven by M&A-related market disruption in the Twin Cities resulting in client and banker acquisition opportunities, PPP-related client acquisition opportunities, the expansion of the talented lending teams, and the strong and growing brand in the Twin Cities market.

Investment Securities Portfolio

The investment securities portfolio is used to make various term investments and is intended to provide the Company with adequate liquidity, a source of stable income, and at times, serve as collateral for certain types of deposits. Investment balances in the investment securities portfolio are subject to change over time based on funding needs and interest rate risk management objectives. The liquidity levels take into account anticipated future cash flows and are maintained at levels management believes are appropriate to ensure future flexibility in meeting anticipated funding needs.

The investment securities portfolio consists primarily of municipal securities, U.S. government agency mortgage backed securities, SBA securities, and corporate securities comprised of subordinated debentures of bank and financial holding companies. In addition, the Company also holds U.S. treasury securities, asset-backed securities and other debt securities, all with varying contractual maturities. These maturities do not necessarily represent the expected life of the securities as the securities may be called or paid down without penalty prior to their stated maturities. All investment securities are held as available for sale.

Securities available for sale were $402.8 million at June 30, 2021, compared to $390.6 million at December 31, 2020, an increase of $12.2 million or 3.1%. At June 30, 2021, municipal securities represented 31.3% of the investment securities portfolio, government agency mortgage-backed securities represented 30.3% of the portfolio, SBA securities represented 9.0% of the portfolio, corporate securities represented 19.1% of the portfolio, U.S. treasury securities represented 0.3% of the portfolio, asset-backed securities represented 9.4% of the portfolio, and other mortgage-backed securities represented 0.6% of the portfolio.

The following table presents the amortized cost and fair value of securities available for sale, by type, at June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury Securities	$ 1,009	$ 1,010	$ —	$ —
SBA Securities	36,302	36,146	40,455	40,107
Mortgage-Backed Securities Issued or Guaranteed by U.S. Agencies (MBS):				
Residential Pass-Through:				
Guaranteed by GNMA	783	835	892	957
Issued by FNMA and FHLMC	18,760	18,623	16,067	16,117
Other Residential Mortgage-Backed Securities	92,017	91,267	94,440	94,409
Commercial Mortgage-Backed Securities	10,915	11,535	11,254	12,032
All Other Commercial MBS	2,578	2,582	742	745
Total MBS	125,053	124,842	123,395	124,260
Municipal Securities	118,599	126,015	105,975	115,012
Corporate Securities	74,002	76,763	71,116	72,155
Asset-Backed Securities	36,619	38,010	38,135	39,095
Total	$ 391,584	$ 402,786	$ 379,076	$ 390,629

Loan Portfolio

The Company focuses on lending to borrowers located or investing in the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area across a diverse range of industries and property types. The Company lends primarily to commercial customers, consisting of loans secured by nonfarm, nonresidential properties, multifamily residential properties, land, and non-real estate business assets. Responsive service, local decision making, and an efficient turnaround time from application to closing have been significant factors in growing the loan portfolio.

The Company manages concentrations of credit exposure through a risk management program which implements formalized processes and procedures specifically for managing and mitigating risk within the loan portfolio. The processes and procedures include board and management oversight, commercial real estate exposure limits, portfolio monitoring tools, management information systems, market reports, underwriting standards, internal and external loan review, and stress testing.

The Company originated net loan exposures of $512.8 million for the second quarter of 2021, compared to $242.7 million for the second quarter of 2020. Net loan exposures include principal advances and unfunded commitments on newly originated loans, net of loan participations sold and PPP loan originations. Total gross loans increased $267.8 million, or 11.5%, to $2.59 billion at June 30, 2021, compared to $2.33 billion at December 31, 2020 and increased $400.4 million, or 18.3%, from $2.19 billion at June 30, 2020. As of June 30, 2021, construction and land development loans increased $81.4 million, or 47.8%, multifamily loans increased $163.8 million, or 26.1%, and nonowner occupied CRE loans increased $48.8 million, or 6.9%, when compared to December 31, 2020. Collectively, the Company's annualized loan growth for the six months ended June 30, 2021, excluding PPP loans, was 28.3%.

The following table presents the dollar and percentage composition of the loan portfolio by category, at the dates indicated:

	June 30, 2021		March 31, 2021		December 31, 2020		September 30, 2020		June 30, 2020	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)										
Commercial	$ 321,474	12.4 %	$ 301,023	12.4 %	$ 304,220	13.1 %	$ 287,254	12.7 %	$ 302,536	13.8 %
Paycheck Protection Program	99,072	3.8	163,258	6.7	138,454	6.0	181,596	8.0	180,228	8.2
Construction and Land Development	251,573	9.7	193,372	8.0	170,217	7.3	175,882	7.8	191,768	8.7
Real Estate Mortgage:										
1 - 4 Family Mortgage	277,943	10.7	294,964	12.2	294,479	12.7	286,089	12.7	289,456	13.2
Multifamily	790,275	30.5	665,415	27.4	626,465	26.9	585,814	25.9	522,491	23.8
CRE Owner Occupied	87,507	3.4	79,665	3.3	75,604	3.2	75,963	3.4	73,539	3.4
CRE Nonowner Occupied	758,101	29.2	720,396	29.7	709,300	30.5	660,058	29.2	627,651	28.6
Total Real Estate Mortgage Loans	1,913,826	73.8	1,760,440	72.6	1,705,848	73.3	1,607,924	71.2	1,513,137	69.0
Consumer and Other	8,241	0.3	8,030	0.3	7,689	0.3	6,572	0.3	6,109	0.3
Total Loans, Gross	2,594,186	100.0 %	2,426,123	100.0 %	2,326,428	100.0 %	2,259,228	100.0 %	2,193,778	100.0 %
Allowance for Loan Losses	(37,591)		(35,987)		(34,841)		(31,381)		(27,633)	
Net Deferred Loan Fees	(11,450)		(11,273)		(9,151)		(10,367)		(10,287)	
Total Loans, Net	$ 2,545,145		$ 2,378,863		$ 2,282,436		$ 2,217,480		$ 2,155,858	

The Company's primary focus historically has been on real estate mortgage lending, which constituted 76.7% of the portfolio, excluding PPP loans, as of June 30, 2021. The composition of the portfolio has remained consistent with prior periods and the Company does not expect any significant changes in the foreseeable future in the composition of the loan portfolio or in the emphasis on real estate lending.

As of June 30, 2021, investor CRE loans totaled $1.80 billion, consisting of $758.1 million of loans secured by nonowner occupied CRE, $790.3 million of loans secured by multifamily residential properties and $251.6 million of construction and land development loans. Investor CRE loans represented 72.1% of the total gross loan portfolio, excluding PPP loans, and 500.6% of the Bank's total risk-based capital at June 30, 2021, compared to 455.8% at December 31, 2020.

The following tables present time to contractual maturity and sensitivity to interest rate changes for the loan portfolio at June 30, 2021 and December 31, 2020:

	As of June 30, 2021		
(dollars in thousands)	Due in One Year or Less	More Than One Year to Five Years	After Five Years
Commercial	$ 137,945	$ 125,448	$ 58,081
Paycheck Protection Program	26,537	72,535	—
Construction and Land Development	93,296	87,703	70,574
Real Estate Mortgage:			
1 - 4 Family Mortgage	55,292	171,980	50,671
Multifamily	102,087	279,171	409,017
CRE Owner Occupied	3,818	18,552	65,137
CRE Nonowner Occupied	153,982	283,813	320,306
Total Real Estate Mortgage Loans	315,179	753,516	845,131
Consumer and Other	4,436	3,112	693
Total Loans, Gross	$ 577,393	$ 1,042,314	$ 974,479
Interest Rate Sensitivity:			
Fixed Interest Rates	$ 254,464	$ 778,028	$ 498,585
Floating or Adjustable Rates	322,929	264,286	475,894
Total Loans, Gross	$ 577,393	$ 1,042,314	$ 974,479

	As of December 31, 2020		
(dollars in thousands)	Due in One Year or Less	More Than One Year to Five Years	After Five Years
Commercial	$ 135,237	$ 119,798	$ 49,185
Paycheck Protection Program	—	138,454	—
Construction and Land Development	100,060	44,637	25,520
Real Estate Mortgage:			
1 - 4 Family Mortgage	66,928	184,038	43,513
Multifamily	70,262	235,447	320,756
CRE Owner Occupied	14,930	16,701	43,973
CRE Nonowner Occupied	151,439	268,640	289,221
Total Real Estate Mortgage Loans	303,559	704,826	697,463
Consumer and Other	2,889	4,040	760
Total Loans, Gross	$ 541,745	$ 1,011,755	$ 772,928
Interest Rate Sensitivity:			
Fixed Interest Rates	$ 219,464	$ 777,201	$ 336,008
Floating or Adjustable Rates	322,281	234,554	436,920
Total Loans, Gross	$ 541,745	$ 1,011,755	$ 772,928

Asset Quality

The Company emphasizes credit quality in the originating and monitoring of the loan portfolio, and success in underwriting is measured by the levels of classified and nonperforming assets and net charge-offs. Federal regulations and internal policies require the use of an asset classification system as a means of managing and reporting problem and potential problem assets. The Company has incorporated an internal asset classification system, substantially consistent with federal banking regulations, as a part of the credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the financial institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "watch."

The following table presents information on loan classifications at June 30, 2021. The Company had no assets classified as doubtful or loss.

	Risk Category		
(dollars in thousands)	Watch	Substandard	Total
Commercial	$ 26,571	$ 1,213	$ 27,784
Construction and Land Development	—	140	140
Real Estate Mortgage:			
1 - 4 Family Mortgage	716	1,350	2,066
CRE Owner Occupied	—	865	865
CRE Nonowner Occupied	29,409	3,615	33,024
Total Real Estate Mortgage Loans	30,125	5,830	35,955
Consumer and Other	—	12	12
Totals	$ 56,696	$ 7,195	$ 63,891

The Company has increased oversight and analysis of all segments of the loan portfolio in response to the COVID-19 pandemic, especially in vulnerable industries such as hospitality and restaurants, to proactively monitor evolving credit risk. Loans that have potential weaknesses that warrant a watchlist risk rating at June 30, 2021, totaled $56.7 million, compared to $44.8 million at December 31, 2020. As the COVID-19 pandemic continues to evolve, the length and extent of the economic uncertainty may result in further watchlist or adverse classifications in the loan portfolio. Loans that warranted a substandard risk rating at June 30, 2021 totaled $7.2 million, compared to $15.2 million at December 31, 2020.

The Company developed programs for clients who experienced business and personal disruptions due to the COVID-19 pandemic by providing interest-only modifications, loan payment deferrals, and extended amortization modifications. In accordance with interagency regulatory guidance and the CARES Act, qualifying loans modified in response to the COVID-19 pandemic are not considered TDRs. The Company had 19 modified loans totaling $34.0 million outstanding as of June 30, 2021, representing 1.4% of the loan portfolio, excluding PPP loans.

The following table presents a rollforward of loan modification activity, by modification type, from December 31, 2020 to June 30, 2021:

(dollars in thousands)	Interest-Only	Payment Deferral	Extended Amortization	Total
Principal Balance - December 31, 2020	$ 61,105	$ 613	$ 4,834	$ 66,552
Modification Expired	(33,535)	(618)	—	(34,153)
Additional Modification Granted	1,173	—	—	1,173
New Modifications	468	—	—	468
Net Principal Advances (Payments)	(52)	5	(56)	(103)
Principal Balance - June 30, 2021	$ 29,159	$ —	$ 4,778	$ 33,937

The following table presents a summary of active loan modifications, by loan segment and modification type, at June 30, 2021:

(dollars in thousands)	Interest-Only Amount	Interest-Only # of Loans	Extended Amortization Amount	Extended Amortization # of Loans	Total Amount	Total # of Loans
Commercial	$ 3,547	7	$ 4,778	1	$ 8,325	8
Real Estate Mortgage:						
CRE Owner Occupied	615	3	—	—	615	3
CRE Nonowner Occupied	24,997	8	—	—	24,997	8
Totals	$ 29,159	18	$ 4,778	1	$ 33,937	19

Modifications have been granted on a case-by-case basis based on specific needs and circumstances affecting each borrower. Interest-only modifications have been primarily granted for three to six month periods, but range up to twelve months.

Nonperforming Assets

Nonperforming loans include loans accounted for on a nonaccrual basis and loans 90 days past due and still accruing. Nonperforming assets consist of nonperforming loans plus foreclosed assets (i.e., real or personal property acquired through foreclosure). Nonaccrual loans totaled $761,000 and $775,000 as of June 30, 2021 and December 31, 2020, respectively, a decrease of $14,000. There were no loans 90 days past due and still accruing as of June 30, 2021 or December 31, 2020 and there were no foreclosed assets as of June 30, 2021 or December 31, 2020.

The following table presents a summary of nonperforming assets, by category, at the dates indicated:

(dollars in thousands)	June 30, 2021	December 31, 2020
Nonaccrual Loans:		
Commercial	$ 6	$ 6
Construction and Land Development	140	156
Real Estate Mortgage:		
CRE Owner Occupied	615	613
Total Real Estate Mortgage Loans	615	613
Total Nonaccrual Loans	$ 761	$ 775
Total Nonperforming Loans	$ 761	$ 775
Plus: Foreclosed Assets	—	—
Total Nonperforming Assets (1)	$ 761	$ 775
Total Restructured Accruing Loans	259	265
Total Nonperforming Assets and Restructured Accruing Loans	$ 1,020	$ 1,040
Nonaccrual Loans to Total Loans	0.03 %	0.03 %
Nonperforming Loans to Total Loans	0.03	0.03
Nonperforming Assets to Total Loans Plus Foreclosed Assets (1)	0.03	0.03
Nonperforming Assets and Restructured Accruing Loans to Total Loans Plus Foreclosed Assets	0.04	0.04

(1) Nonperforming assets are defined as nonaccrual loans and loans greater than 90 days past due still accruing plus foreclosed assets.

The balance of nonperforming assets can fluctuate due to changes in economic conditions. The Company has established a policy to discontinue accruing interest on a loan (that is, place the loan on nonaccrual status) after it has become 90 days delinquent as to payment of principal or interest, unless the loan is considered to be well-collateralized and is actively in the process of collection. In addition, a loan will be placed on nonaccrual status before it becomes 90 days delinquent unless management believes that the collection of interest is expected. Interest previously accrued but uncollected on such loans is reversed and charged against current income when the receivable is determined to be uncollectible. If management believes that a loan will not be collected in full, an increase to the allowance for loan losses is recorded to reflect management’s estimate of any potential exposure or loss. Generally, payments received on nonaccrual loans are applied directly to principal. Gross income that would have been recorded on nonaccrual loans during the three and six months ended June 30, 2021 was $12,000 and $31,000, respectively.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The Company maintains an allowance for loan losses at a level management considers adequate to provide for known and probable incurred losses in the portfolio. The level of the allowance is based on management's evaluation of estimated losses in the portfolio, after consideration of risk characteristics of the loans and prevailing and anticipated economic conditions. Loan charge-offs (i.e., loans judged to be uncollectible) are charged against the reserve and any subsequent recovery is credited to the reserve. The Company analyzes risks within the loan portfolio on a continual basis. A risk system, consisting of multiple grading categories for each portfolio class, is utilized as an analytical tool to assess risk and appropriate reserves. In addition to the risk system, management further evaluates risk characteristics of the loan portfolio under current and anticipated economic conditions, including the economic distress caused by the COVID-19 pandemic, and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors which management feels deserve recognition in establishing an appropriate reserve. These estimates are reviewed at least quarterly, and as adjustments become necessary, they are recognized in the periods in which they become known. Although management strives to maintain an allowance it deems adequate, future economic changes, deterioration of borrowers' creditworthiness, and the impact of examinations by regulatory agencies all could cause changes to the allowance for loan losses.

At June 30, 2021, the allowance for loan losses was $37.6 million, an increase of $2.8 million from $34.8 million at December 31, 2020. Net charge-offs (recoveries) totaled ($4,000) during the second quarter of 2021 and ($48,000) during the second quarter of 2020. Net charge-offs (recoveries) totaled $(50,000) for the six months ended June 30, 2021 and $(7,000) for the six months ended June 30, 2020. The allowance for loan losses as a percentage of total loans was 1.45% as of June 30, 2021 and 1.50% as of December 31, 2020. Excluding PPP loans, the allowance for loan losses as a percentage of total loans was 1.50% as of June 30, 2021 and 1.59% as of December 31, 2020.

The following table presents a summary of the activity in the allowance for loan loss reserve for the periods indicated:

(dollars in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Balance, Beginning of Period	$ 35,987	$ 24,585	$ 34,841	$ 22,526
Charge-offs:				
Commercial	—	—	—	34
Real Estate Mortgage:				
1 - 4 Family Mortgage	—	—	5	—
Total Real Estate Mortgage Loans	—	—	5	—
Consumer and Other	3	1	12	14
Total Charge-offs	3	1	17	48
Recoveries:				
Commercial	3	2	22	4
Real Estate Mortgage:				
1 - 4 Family Mortgage	2	46	5	48
CRE Owner Occupied	—	—	32	—
Total Real Estate Mortgage Loans	2	46	37	48
Consumer and Other	2	1	8	3
Total Recoveries	7	49	67	55
Net Charge-offs (Recoveries)	(4)	(48)	(50)	(7)
Provision for Loan Losses	1,600	3,000	2,700	5,100
Balance at End of Period	$ 37,591	$ 27,633	$ 37,591	$ 27,633
Gross Loans, End of Period	2,594,186	2,193,778	2,594,186	2,193,778
Average Loans	2,534,071	2,152,398	2,462,393	2,053,678
Net Charge-offs (Recoveries) (Annualized) to Average Loans	— %	(0.01)%	— %	— %
Allowance to Total Gross Loans	1.45 %	1.26 %	1.45 %	1.26 %
Allowance to Total Gross Loans, Excluding PPP Loans	1.50 %	1.37 %	1.50 %	1.37 %

The following table presents a summary of the allocation of the allowance for loan losses by loan portfolio segment for the periods indicated:

(dollars in thousands)	June 30, 2021 Amount	June 30, 2021 Percent	December 31, 2020 Amount	December 31, 2020 Percent
Commercial	$ 6,525	17.4 %	$ 5,703	16.4 %
Paycheck Protection Program	50	0.1	70	0.2
Construction and Land Development	3,427	9.1	2,491	7.1
Real Estate Mortgage:				
1 - 4 Family Mortgage	3,502	9.3	3,972	11.4
Multifamily	11,150	29.7	9,517	27.3
CRE Owner Occupied	1,244	3.3	1,162	3.3
CRE Nonowner Occupied	11,018	29.3	10,991	31.6
Total Real Estate Mortgage Loans	26,914	71.6	25,642	73.6
Consumer and Other	220	0.6	203	0.6
Unallocated	455	1.2	732	2.1
Total Allowance for Loan Losses	$ 37,591	100.0 %	$ 34,841	100.0 %

Deposits

The principal sources of funds for the Company are deposits, consisting of demand deposits, money market accounts, savings accounts, and certificates of deposit. The following table presents the dollar and percentage composition of the deposit portfolio, by category, at the dates indicated:

	June 30, 2021		March 31, 2021		December 31, 2020		September 30, 2020		June 30, 2020	
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Noninterest Bearing Transaction Deposits	$ 758,023	27.9 %	$ 712,999	27.0 %	$ 671,903	26.9 %	$ 685,773	30.2 %	$ 648,869	28.9 %
Interest Bearing Transaction Deposits	432,123	15.9	433,344	16.4	366,290	14.6	322,253	14.2	285,386	12.7
Savings and Money Market Deposits	761,485	28.0	791,583	30.0	657,617	26.3	498,397	21.9	516,543	23.0
Time Deposits	321,857	11.8	344,581	13.1	353,543	14.1	363,897	16.0	382,187	17.1
Brokered Deposits	447,418	16.4	356,147	13.5	452,283	18.1	402,724	17.7	409,066	18.3
Total Deposits	$ 2,720,906	100.0 %	$ 2,638,654	100.0 %	$ 2,501,636	100.0 %	$ 2,273,044	100.0 %	$ 2,242,051	100.0 %

Total deposits at June 30, 2021 were $2.72 billion, an increase of $219.3 million, or 8.8%, compared to total deposits of $2.50 billion at December 31, 2020, and an increase of $478.9 million, or 21.4%, over total deposits of $2.24 billion at June 30, 2020. Noninterest bearing transaction deposits were $758.0 million at June 30, 2021, compared to $671.9 million at December 31, 2020, and $648.9 million at June 30, 2020. Noninterest bearing deposits comprised 27.9% of total deposits at June 30, 2021, compared to 26.9% at December 31, 2020, and 28.9% at June 30, 2020. The growth in core, non-maturity deposits was a result of both successful new client and banker acquisition initiatives, pandemic-related accumulation of liquidity by existing clients, and the Company's strong, growing brand in the Twin Cities market. Given the fluid environment, management believes deposits could experience fluctuations in future periods.

The Company relies on increasing the deposit base to fund loans and other asset growth. The Company is in a highly competitive market and competes for local deposits by offering attractive products with competitive rates. The Company expects to have a higher average cost of funds for local deposits compared to competitor banks due to the lack of an extensive branch network. The Company's strategy is to offset the higher cost of funding with a lower level of operating expense. When appropriate, the Company utilizes alternative funding sources such as brokered deposits. The brokered deposit market provides flexibility in structure, optionality and efficiency not afforded in traditional retail deposit channels. At June 30, 2021, total brokered deposits were $447.4 million, a decrease of $4.9 million, or 1.1%, compared to total brokered deposits of $452.3 million at December 31, 2020. Brokered deposits increased back to levels last seen on December 31, 2020 due to the opportunity to obtain $75.0 million in funding during the quarter at 1 basis point at various short-term maturities ranging from 3-12 months.

The following table presents the average balance and average rate paid on each of the following deposit categories for the three months ended June 30, 2021 and June 30, 2020:

	As of and for the Three Months Ended June 30, 2021		As of and for the Three Months Ended June 30, 2020	
(dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest Bearing Transaction Deposits	$ 732,299	— %	$ 603,456	— %
Interest Bearing Transaction Deposits	421,132	0.50	272,565	0.56
Savings and Money Market Deposits	764,632	0.49	521,313	1.02
Time Deposits < $250,000	266,116	1.27	241,009	2.30
Time Deposits > $250,000	66,230	1.38	147,348	2.03
Brokered Deposits	379,768	1.03	319,711	1.69
Total Deposits	$ 2,630,177	0.54 %	$ 2,105,402	0.99 %

Borrowed Funds

Federal Funds Purchased

In addition to deposits, the Company utilizes overnight borrowings to meet the daily liquidity needs of clients and to fund loan growth. The following table summarizes overnight borrowings, which consist of federal funds purchased from correspondent banks on an overnight basis at the prevailing overnight market rates and the weighted average interest rates paid for the periods presented:

(dollars in thousands)	As of and for the Three Months Ended June 30, 2021	As of and for the Three Months Ended December 31, 2020	As of and for the Three Months Ended June 30, 2020
Outstanding at Period-End	$ —	$ —	$ —
Average Amount Outstanding	9,932	4,072	9
Maximum Amount Outstanding at any Month-End	29,000	24,000	—
Weighted Average Interest Rate:			
During Period	0.24 %	0.33 %	0.72 %
End of Period	0.26 %	0.29 %	0.40 %

Other Borrowings

At June 30, 2021, other borrowings outstanding consisted of FHLB advances of $57.5 million. The Company’s $11.0 million note payable matured during the first quarter of 2021 and was paid off in full at maturity. On March 1, 2021, the Company entered into a Loan and Security Agreement and revolving note which has made a $25.0 million revolving line of credit available to the Company, secured by 100% of the issued and outstanding stock of the Bank. The maturity of the line of credit is February 28, 2023. As of June 30, 2021, there were no outstanding balances under the revolving line of credit.

As part of the CARES Act, the Federal Reserve Bank offered secured borrowings to banks who originated PPP loans through the Paycheck Protection Program Liquidity Facility, or PPPLF. As of June 30, 2021, the Company had not pledged any PPP loans to borrow funds under this facility. The facility is available through July 30, 2021.

The Company’s borrowing capacity at the FHLB is determined based on collateral pledged, generally consisting of loans. The Company had additional borrowing capacity under this credit facility of $508.5 million and $361.2 million at June 30, 2021 and December 31, 2020, respectively.

Additionally, the Company has borrowing capacity from other sources. As of June 30, 2021, the Bank was eligible to use the Federal Reserve discount window for borrowings. Based on assets pledged as collateral as of the applicable date, the Bank’s borrowing availability was approximately $94.6 million and $76.8 million at June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021 and December 31, 2020, the Company had no outstanding advances.

Subordinated Debentures

On June 19, 2020, the Company issued $50.0 million of subordinated debentures at an initial fixed interest rate of 5.25%, which is payable semi-annually. Beginning July 1, 2025, the interest rate converts to a variable interest rate equal to the three-month term SOFR, plus 5.13%, which is payable quarterly. The subordinated debentures mature on July 1, 2030. The subordinated debentures, net of issuance costs, were $49.0 million at June 30, 2021. On October 13, 2020, the Company completed an exchange of $47.0 million total principal amount of the subordinated debentures for substantially identical subordinated debentures registered under the Securities Act of 1933, in satisfaction of the Company’s obligations under a registration rights agreement entered into with the initial purchasers of the subordinated debentures.

On July 12, 2017, the Company issued $25.0 million of subordinated debentures at an initial fixed interest rate of 5.875%, which is payable semi-annually. Beginning July 15, 2022, the interest rate converts to a variable interest rate equal to the three-month LIBOR plus 3.88%, which is payable quarterly. The subordinated debentures mature on July 15, 2027. The subordinated debentures, net of issuance costs, were $24.9 million at June 30, 2021, compared to $24.8 million at December 31, 2020.

All of the subordinated debentures qualify for Tier 2 regulatory capital treatment at the Company level under applicable regulatory guidelines.

On July 8, 2021, the Company announced the completion of a private placement of $30.0 million in aggregate principal amount of 3.25% fixed-to-floating rate subordinated notes due 2031. The Company intends to use the net proceeds it received from the sale of the notes for general corporate purposes, including support for organic growth plans, support for bank level capital ratios and possible redemption or repurchase of currently outstanding indebtedness.

Contractual Obligations

The following table presents supplemental information regarding total contractual obligations at June 30, 2021:

(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits Without a Stated Maturity	$ 2,142,381	$ —	$ —	$ —	$ 2,142,381
Time Deposits	193,002	130,768	211,815	42,940	578,525
FHLB Advances	15,000	15,000	23,500	4,000	57,500
Subordinated Debentures	—	—	—	75,000	75,000
Commitment to Fund Tax Credit Investments	967	—	—	—	967
Operating Lease Obligations	509	987	978	697	3,171
Totals	$ 2,351,859	$ 146,755	$ 236,293	$ 122,637	$ 2,857,544

The Company believes that it will be able to meet all contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through earnings, loan and securities repayments and maturity activity and continued deposit gathering activities. As described above, the Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Shareholders' Equity

Shareholders' equity at June 30, 2021 was $290.8 million, an increase of $25.4 million, or 9.6%, over shareholders' equity of $265.4 million at December 31, 2020, primarily due to $21.7 million of net income and a $2.7 million increase in accumulated other comprehensive income. The increase in accumulated other comprehensive income primarily resulted from interest rate fluctuations between periods.

Stock Repurchase Program. During the three and six months ended June 30, 2021, the Company repurchased -0- and 16,618 shares of its common stock, respectively, representing less than 1% of the Company's outstanding shares. Shares were repurchased at a weighted average price of $12.50 for a total of $208,000. All shares repurchased under the stock repurchase program were converted to authorized but unissued shares. At June 30, 2021, the remaining amount that could be used to repurchase shares under the stock repurchase program was $14.5 million.

Regulatory Capital. The Company and the Bank are subject to various regulatory capital requirements administered by federal banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by federal banking regulators that, if undertaken, could have a direct material effect on the Company's and Bank's business.

Under applicable regulatory capital rules, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank must also meet certain specific capital guidelines under the prompt corrective action framework. The capital amounts and classification are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average consolidated assets (referred to as the "leverage ratio"), as defined under the applicable regulatory capital rules.

Management believes the Company and the Bank met all capital adequacy requirements to which they were subject as of June 30, 2021. The regulatory capital ratios for the Company and the Bank to meet the minimum capital adequacy standards and for the Bank to be considered well capitalized under the prompt corrective action framework are set forth in the following tables. The Company's and the Bank's actual capital amounts and ratios are as of the dates indicated.

	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
June 30, 2021	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(dollars in thousands)							
Company (Consolidated):								
Total Risk-Based Capital	$ 388,317	13.49 %	$ 230,349	8.00 %	$ 302,333	10.50 %	N/A	N/A
Tier 1 Risk-Based Capital	278,388	9.67	172,762	6.00	244,746	8.50	N/A	N/A
Common Equity Tier 1 Capital	278,388	9.67	129,571	4.50	201,555	7.00	N/A	N/A
Tier 1 Leverage Ratio	278,388	9.08	122,618	4.00	122,618	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	$ 359,586	12.49 %	$ 230,314	8.00 %	$ 302,287	10.50 %	$ 287,892	10.00 %
Tier 1 Risk-Based Capital	323,575	11.24	172,735	6.00	244,708	8.50	230,314	8.00
Common Equity Tier 1 Capital	323,575	11.24	129,551	4.50	201,524	7.00	187,130	6.50
Tier 1 Leverage Ratio	323,575	10.57	122,507	4.00	122,507	4.00	153,133	5.00

	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
December 31, 2020	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(dollars in thousands)							
Company (Consolidated):								
Total Risk-Based Capital	$ 360,198	14.58 %	$ 197,604	8.00 %	$ 259,355	10.50 %	N/A	N/A
Tier 1 Risk-Based Capital	255,530	10.35	148,203	6.00	209,954	8.50	N/A	N/A
Common Equity Tier 1 Capital	255,530	10.35	111,152	4.50	172,904	7.00	N/A	N/A
Tier 1 Leverage Ratio	255,530	9.28	110,168	4.00	110,168	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	$ 330,380	13.37 %	$ 197,629	8.00 %	$ 259,388	10.50 %	$ 247,036	10.00 %
Tier 1 Risk-Based Capital	299,447	12.12	148,222	6.00	209,981	8.50	197,629	8.00
Common Equity Tier 1 Capital	299,447	12.12	111,166	4.50	172,925	7.00	160,574	6.50
Tier 1 Leverage Ratio	299,447	10.89	109,972	4.00	109,972	4.00	137,465	5.00

The Company and the Bank are subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules require a capital conservation buffer of 2.5% that was added to the minimum requirements for capital adequacy purposes. A banking organization with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers. At June 30, 2021, the ratios for the Company and the Bank were sufficient to meet the conservation buffer.

Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into various transactions to meet the financing needs of clients, which, in accordance with GAAP, are not included in the consolidated balance sheets. These transactions include commitments to extend credit, standby letters of credit, 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 the consolidated balance sheets. Most of these commitments mature within two years and the standby letters of credit are expected to expire without being drawn upon. All off-balance sheet commitments are included in the determination of the amount of risk-based capital that the Company and the Bank are required to hold.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and commercial letters of credit is represented by the contractual or notional amount of those instruments. The Company decreases its exposure to losses under these commitments by subjecting them to credit approval and monitoring procedures. The Company assesses the credit risk associated with certain commitments to extend credit and establishes a liability for probable credit losses.

The following table presents credit arrangements and financial instruments whose contract amounts represent credit risk as of June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
(dollars in thousands)	**Fixed**	**Variable**	**Fixed**	**Variable**
Unfunded Commitments Under Lines of Credit	$ 344,308	$ 456,606	$ 243,988	$ 400,350
Letters of Credit	11,565	90,890	10,954	79,252
Totals	$ 355,873	$ 547,496	$ 254,942	$ 479,602

Liquidity

Liquidity is the Company's capacity to meet cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Company's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or financial condition. The Bank's Asset Liability Management, or ALM, Committee, which is comprised of members of senior management, is responsible for managing commitments to meet the needs of customers while achieving the Company's financial objectives. The ALM Committee meets regularly to review balance sheet composition, funding capacities, and current and forecasted loan demand.

The Company manages liquidity by maintaining adequate levels of cash and other assets from on- and off-balance sheet arrangements. Specifically, on-balance sheet liquidity consists of cash and due from banks and unpledged investment securities available for sale, which are referred to as primary liquidity. In regards to off-balance sheet capacity, the Company maintains available borrowing capacity under secured borrowing lines with the FHLB, the Federal Reserve Bank of Minneapolis, and a correspondent lender, as well as unsecured lines of credit for the purpose of overnight funds with various correspondent banks, which the Company refers to as secondary liquidity.

In addition, the Bank is a member of the American Financial Exchange, or AFX, through which it may either borrow or lend funds on an overnight or short-term basis with a group of approved commercial banks. The availability of funds changes daily. As of June 30, 2021, the Company had no borrowings outstanding through the AFX. The Bank has also established additional borrowing capacity through the Federal Reserve Bank's PPPLF, where it can pledge PPP loans to borrow an equal amount of funds. As of June 30, 2021, the Company had no borrowings outstanding through this facility and $99.1 million of PPP loans available to pledge. The facility is available through July 30, 2021.

The following tables provide a summary of primary and secondary liquidity levels as of the dates indicated:

Primary Liquidity—On-Balance Sheet (Dollars in thousands)	June 30, 2021	December 31, 2020
Cash and Cash Equivalents	$ 83,141	$ 145,348
Securities Available for Sale	402,786	390,629
Total Primary Liquidity	$ 485,927	$ 535,977
Ratio of Primary Liquidity to Total Deposits	17.9 %	21.4 %

Secondary Liquidity—Off-Balance Sheet Borrowing Capacity (Dollars in thousands)	June 30, 2021	December 31, 2020
Net Secured Borrowing Capacity with the FHLB	$ 508,461	$ 361,236
Net Secured Borrowing Capacity with the Federal Reserve Bank	94,567	76,830
Unsecured Borrowing Capacity with Correspondent Lenders	191,000	143,000
Secured Borrowing Capacity with Correspondent Lender	25,000	—
Total Secondary Liquidity	$ 819,028	$ 581,066
Ratio of Primary and Secondary Liquidity to Total Deposits	48.0 %	44.7 %

During the six months ended June 30, 2021, primary liquidity decreased by $50.1 million due to a $62.2 million decrease in cash and cash equivalents, offset partially by a $12.2 million increase in securities available for sale, when compared to December 31, 2020. Secondary liquidity increased by $238.0 million as of June 30, 2021 when compared to December 31, 2020, due to a $147.2 million increase in the borrowing capacity on the secured borrowing line with the FHLB, a $17.7 million increase in the borrowing capacity on the secured credit line with the Federal Reserve Bank, a $48.0 million increase in unsecured borrowing capacity with correspondent lenders, and a $25.0 million increase from the addition of a secured revolving line of credit with a correspondent lender.

In addition to primary liquidity, the Company generates liquidity from cash flows from the loan and securities portfolios and from the large base of core customer deposits, defined as noninterest bearing transaction, interest bearing transaction, savings, non-brokered money market accounts and non-brokered time deposits less than $250,000. At June 30, 2021, core deposits totaled approximately $2.21 billion and represented 81.2% of total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company, which promote long-standing relationships and stable funding sources.

The Company uses brokered deposits, the availability of which is uncertain and subject to competitive market forces and regulation, for liquidity management purposes. At June 30, 2021, brokered deposits totaled $447.4 million, consisting of $221.7 million of brokered time deposits and $225.7 million of non-maturity brokered money market and transaction accounts. At December 31, 2020, brokered deposits totaled $452.3 million, consisting of $292.6 million of brokered time deposits and $159.7 million of non-maturity brokered money market and transaction accounts.

The Company's liquidity policy includes guidelines for On-Balance Sheet Liquidity (a measurement of primary liquidity to total deposits plus borrowings), Total On-Balance Sheet Liquidity with Borrowing Capacity (a measurement of primary and secondary liquidity to total deposits plus borrowings), Wholesale Funding Ratio (a measurement of total wholesale funding to total deposits plus borrowings), and other guidelines developed for measuring and maintaining liquidity. As of June 30, 2021, the Company was in compliance with all established liquidity guidelines in the policy.

Non-GAAP Financial Measures

In addition to the results presented in accordance with GAAP, the Company routinely supplements its evaluation with an analysis of certain non-GAAP financial measures. The Company believes these non-GAAP financial measures, in addition to the related GAAP measures, provide meaningful information to investors to help them understand the Company's operating performance and trends, and to facilitate comparisons with the performance of peers. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Reconciliations of non-GAAP disclosures used in this report to the comparable GAAP measures are provided in the following tables.

	For the Three Months Ended					For the Six Months Ended	
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	June 30, 2021	June 30, 2020
(dollars in thousands)							
Pre-Provision Net Revenue							
Noninterest Income	$ 1,603	$ 1,008	$ 986	$ 1,157	$ 1,977	$ 2,611	$ 3,696
Less: Gain on sales of Securities	(702)	—	(30)	(109)	(1,361)	(702)	(1,364)
Total Operating Noninterest Income	901	1,008	956	1,048	616	1,909	2,332
Plus: Net Interest income	26,288	25,395	24,841	21,679	21,342	51,683	41,444
Net Operating Revenue	$ 27,189	$ 26,403	$ 25,797	$ 22,727	$ 21,958	$ 53,592	$ 43,776
Noninterest Expense	$ 11,477	$ 10,923	$ 15,258	$ 9,672	$ 10,711	$ 22,400	$ 20,457
Less: Amortization of Tax Credit Investments	(140)	(118)	(146)	(145)	(362)	(258)	(447)
Less: FHLB Advance Prepayment Fees	—	—	(5,613)	—	(1,430)	—	(1,430)
Total Operating Noninterest Expense	$ 11,337	$ 10,805	$ 9,499	$ 9,527	$ 8,919	$ 22,142	$ 18,580
Pre-Provision Net Revenue	$ 15,852	$ 15,598	$ 16,298	$ 13,200	$ 13,039	$ 31,450	$ 25,196
Plus:							
Non-Operating Revenue Adjustments	702	—	30	109	1,361	702	1,364
Less:							
Provision for Loan Losses	1,600	1,100	3,900	3,750	3,000	2,700	5,100
Non-Operating Expense Adjustments	140	118	5,759	145	1,792	258	1,877
Provision for Income Taxes	3,821	3,709	1,690	2,240	2,010	7,530	4,542
Net Income	$ 10,993	$ 10,671	$ 4,979	$ 7,174	$ 7,598	$ 21,664	$ 15,041
Average Assets	$ 3,076,712	$ 2,940,262	$ 2,816,032	$ 2,711,755	$ 2,622,272	$ 3,008,864	$ 2,469,656
Pre-Provision Net Revenue Return on Average Assets	2.07 %	2.15 %	2.30 %	1.94 %	2.00 %	2.11 %	2.05 %

	For the Three Months Ended					For the Six Months Ended	
	June 30, 2021	March 31 2021	December 31, 2020	September 30, 2020	June 30, 2020	June 30, 2021	June 30, 2020
(dollars in thousands)							
Core Net Interest Margin							
Net Interest Income (Tax-equivalent Basis)	$ 26,495	$ 25,609	$ 25,051	$ 21,898	$ 21,581	$ 52,105	$ 41,935
Less: Loan Fees	(1,023)	(1,202)	(1,514)	(1,198)	(1,264)	(2,225)	(2,571)
Less: PPP Interest and Fees	(1,767)	(1,864)	(2,097)	(1,173)	(873)	(3,631)	(873)
Core Net Interest Income	$ 23,705	$ 22,543	$ 21,440	$ 19,527	$ 19,444	$ 46,249	$ 38,491
Average Interest Earning Assets	3,019,437	2,883,084	2,759,543	2,655,882	2,567,292	2,951,636	2,422,448
Less: Average PPP Loans	(149,312)	(148,881)	(165,099)	(181,397)	(139,235)	(149,098)	(70,037)
Core Average Interest Earning Assets	$ 2,870,125	$ 2,734,203	$ 2,594,444	$ 2,474,485	$ 2,428,057	$ 2,802,538	$ 2,352,411
Core Net Interest Margin	3.31 %	3.34 %	3.29 %	3.14 %	3.22 %	3.33 %	3.29 %

	For the Three Months Ended					For the Six Months Ended	
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	June 30, 2021	June 30, 2020
(dollars in thousands)							
Efficiency Ratio							
Noninterest Expense	$ 11,477	$ 10,923	$ 15,258	$ 9,672	$ 10,711	$ 22,400	$ 20,457
Less: Amortization of Intangible Assets	(47)	(48)	(48)	(48)	(47)	(95)	(95)
Adjusted Noninterest Expense	$ 11,430	$ 10,875	$ 15,210	$ 9,624	$ 10,664	$ 22,305	$ 20,362
Net Interest Income	26,288	25,395	24,841	21,679	21,342	51,683	41,444
Noninterest Income	1,603	1,008	986	1,157	1,977	2,611	3,696
Less: Gain on Sales of Securities	(702)	—	(30)	(109)	(1,361)	(702)	(1,364)
Adjusted Operating Revenue	$ 27,189	$ 26,403	$ 25,797	$ 22,727	$ 21,958	$ 53,592	$ 43,776
Efficiency Ratio	42.0 %	41.2 %	59.0 %	42.3 %	48.6 %	41.6 %	46.5 %
Adjusted Efficiency Ratio							
Noninterest Expense	$ 11,477	$ 10,923	$ 15,258	$ 9,672	$ 10,711	$ 22,400	$ 20,457

Less: Amortization of Tax Credit Investments	(140)	(118)	(146)	(145)	(362)	(258)	(447)
Less: FHLB Advance Prepayment Fees	—	—	(5,613)	—	(1,430)	—	(1,430)
Less: Amortization of Intangible Assets	(47)	(48)	(48)	(48)	(47)	(95)	(95)
Adjusted Noninterest Expense	$ 11,290	$ 10,757	$ 9,451	$ 9,479	$ 8,872	$ 22,047	$ 18,485
Net Interest Income	26,288	25,395	24,841	21,679	21,342	51,683	41,444
Noninterest Income	1,603	1,008	986	1,157	1,977	2,611	3,696
Less: Gain on Sales of Securities	(702)	—	(30)	(109)	(1,361)	(702)	(1,364)
Adjusted Operating Revenue	$ 27,189	$ 26,403	$ 25,797	$ 22,727	$ 21,958	$ 53,592	$ 43,776
Adjusted Efficiency Ratio	41.5 %	40.7 %	36.6 %	41.7 %	40.4 %	41.1 %	42.2 %

	For the Three Months Ended					For the Six Months Ended	
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	June 30, 2021	June 30, 2020
(dollars in thousands)							
Adjusted Noninterest Expense to Average Assets							
Noninterest Expense	$ 11,447	$ 10,923	$ 15,258	$ 9,672	$ 10,711	$ 22,400	$ 20,457
Less: Amortization of Tax Credit Investments	(140)	(118)	(146)	(145)	(362)	(258)	(447)
Less: FHLB Advance Prepayment Fees	—	—	(5,613)	—	(1,430)	—	(1,430)
Adjusted Noninterest Expense	$ 11,307	$ 10,805	$ 9,499	$ 9,527	$ 8,919	$ 22,142	$ 18,580
Average Assets	$ 3,076,712	$ 2,940,262	$ 2,816,032	$ 2,711,755	$ 2,622,272	$ 3,008,864	$ 2,469,656
Adjusted Noninterest Expense to Average Assets	1.48 %	1.49 %	1.34 %	1.40 %	1.37 %	1.48 %	1.51 %

	For the Three Months Ended					For the Six Months Ended	
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	June 30, 2021	June 30, 2020
(dollars in thousands)							
Tangible Common Equity and Tangible Common Equity/Tangible Assets							
Common Equity	$ 290,830	$ 279,171	$ 265,405	$ 265,432	$ 257,190		
Less: Intangible Assets	(3,200)	(3,248)	(3,296)	(3,344)	(3,391)		
Tangible Common Equity	$ 287,630	$ 275,923	$ 262,109	$ 262,088	$ 253,799		
Total Assets	$ 3,162,612	$ 3,072,359	$ 2,927,345	$ 2,774,564	$ 2,754,463		
Less: Intangible Assets	(3,200)	(3,248)	(3,296)	(3,344)	(3,391)		
Tangible Assets	$ 3,159,412	$ 3,069,111	$ 2,924,049	$ 2,771,220	$ 2,751,072		
Tangible Common Equity/Tangible Assets	9.10 %	8.99 %	8.96 %	9.46 %	9.23 %		
Tangible Book Value Per Share							
Book Value Per Common Share	$ 10.33	$ 9.92	$ 9.43	$ 9.25	$ 8.92		
Less: Effects of Intangible Assets	(0.11)	(0.12)	(0.12)	(0.12)	(0.12)		
Tangible Book Value Per Common Share	$ 10.22	$ 9.80	$ 9.31	$ 9.13	$ 8.80		
Return on Average Tangible Common Equity							
Net Income	$ 10,993	$ 10,671	$ 4,979	$ 7,174	$ 7,598	$ 21,664	$ 15,041
Average Common Equity	$ 286,311	$ 272,729	$ 265,716	$ 263,195	$ 255,109	$ 279,558	$ 252,955
Less: Effects of Average Intangible Assets	(3,228)	(3,276)	(3,323)	(3,371)	(3,419)	(3,251)	(3,442)
Average Tangible Common Equity	$ 283,083	$ 269,453	$ 262,393	$ 259,824	$ 251,690	$ 276,307	$ 249,513
Return on Average Tangible Common Equity	15.58 %	16.06 %	7.55 %	10.98 %	12.14 %	15.81 %	12.12 %

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As a financial institution, the Company's primary market risk is interest rate risk, which is defined as the risk of loss of net interest income or net interest margin because of changes in interest rates. The Company continually seeks to measure and manage the potential impact of interest rate risk. Interest rate risk occurs when interest earning assets and interest bearing liabilities mature or re-price at different times, on a different basis or in unequal amounts. Interest rate risk also arises when assets and liabilities each respond differently to changes in interest rates.

The Company's management of interest rate risk is overseen by its ALM Committee, based on a risk management infrastructure approved by the board of directors that outlines reporting and measurement requirements. In particular, this infrastructure sets limits and management targets for various metrics, including net interest income simulation involving parallel shifts in interest rate curves, steepening and flattening yield curves, and various prepayment and deposit duration assumptions. The Company's risk management infrastructure also requires a periodic review of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates based on historical analysis and noninterest bearing and interest bearing transaction deposit durations based on historical analysis. The Company does not engage in speculative trading activities relating to interest rates, foreign exchange rates, commodity prices, equities or credit.

The Company manages the interest rate risk associated with interest earning assets by managing the interest rates and terms associated with the investment securities portfolio by purchasing and selling investment securities from time to time. The Company manages the interest rate risk associated with interest bearing liabilities by managing the interest rates and terms associated with wholesale borrowings and deposits from customers which the Company relies on for funding. For example, the Company occasionally uses special offers on deposits to alter the interest rates and terms associated with interest bearing liabilities.

The Company has entered into certain hedging transactions including interest rate swaps and caps, which are designed to lessen elements of the Company's interest rate exposure. Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company utilizes cash flow hedges to manage interest rate exposure for the brokered deposit and wholesale borrowing portfolios. At June 30, 2021 and December 31, 2020, these cash flow hedges had a total notional amount of $185.0 million and $161.0 million, respectively. In the event that interest rates do not change in the manner anticipated, such transactions may adversely affect the Company's results of operations.

Net Interest Income Simulation

The Company uses a net interest income simulation model to measure and evaluate potential changes in net interest income that would result over the next 12 months from immediate and sustained changes in interest rates as of the measurement date. This model has inherent limitations and the results are based on a given set of rate changes and assumptions as of a certain point in time. For purposes of the simulation, the Company assumes no growth in either interest-sensitive assets or liabilities over the next 12 months; therefore, the model's results reflect an interest rate shock to a static balance sheet. The simulation model also incorporates various other assumptions, which the Company believes are reasonable but which may have a significant impact on results, such as: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market-rate-sensitive instruments, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) varying loan prepayment speeds for different interest rate scenarios, (6) the effect of interest rate limitations in assets, such as floors and caps, and (7) overall growth and repayment rates and product mix of assets and liabilities. Because of the limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on the results, but rather as a means to better plan and execute appropriate asset-liability management strategies and to manage interest rate risk.

Potential changes to the Company's net interest income in hypothetical rising and declining rate scenarios calculated as of June 30, 2021 are presented in the table below. The projections assume an immediate, parallel shift downward of the yield curve of 100 basis points and immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points. In the current interest rate environment, a downward shift of the yield curve of 200, 300 and 400 basis points does not provide us with meaningful results and thus is not presented.

Change (basis points) in Interest Rates (12-Month Projection)	June 30, 2021 Forecasted Net Interest Income	June 30, 2021 Percentage Change from Base	December 31, 2020 Forecasted Net Interest Income	December 31, 2020 Percentage Change from Base
+400	$ 102,185	5.30 %	$ 91,046	10.03 %
+300	100,629	3.69	88,698	7.19
+200	98,964	1.98	86,241	4.22
+100	97,547	0.52	84,195	1.75
0	97,045	—	82,747	—
−100	94,373	(2.75)	81,780	(1.17)

The table above indicates that as of June 30, 2021, in the event of an immediate and sustained 400 basis point increase in interest rates, the Company would experience a 5.30% increase in net interest income. In the event of an immediate 100 basis point decrease in interest rates, the Company would experience a 2.75% decrease in net interest income.

The results of this simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, net interest income might vary significantly. Non-parallel yield curve shifts such as a flattening or steepening of the yield curve or changes in interest rate spreads would also cause net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term liabilities re-price faster than expected or re-price faster than the Company's assets. Actual results could differ from those projected if the Company grows assets and liabilities faster or slower than estimated, if the Company experienced a net outflow of deposit liabilities, or if the mix of assets and liabilities otherwise changes. Actual results could also differ from those projected if the Company experienced substantially different repayment speeds in the loan portfolio than those assumed in the simulation model. Finally, these simulation results do not contemplate all the actions that the Company may undertake in response to potential or actual changes in interest rates, such as changes to the Company's loan, investment, deposit, or funding strategies.

LIBOR Transition

LIBOR is used as an index rate for the Company's interest rate swaps and caps, a portion of its subordinated debt, various investment securities and approximately 9.1% of the Company's loans as of June 30, 2021. It is expected that the number of institutions that have been reporting information used to set LIBOR will stop doing so starting after December 31, 2021 through June 30, 2023 when their reporting commitment ends. As a result, LIBOR may no longer be available as an index or may be seen as no longer representative of the market. Alternative reference rates are being identified, but existing contracts may not have been written to allow the use of these alternatives. The Company is evaluating the risks related to this transition and its evaluation and mitigation of risks related to the discontinuation of LIBOR may span several reporting periods through 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act) as of June 30, 2021, the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2021, the Company's disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q 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

Neither the Company nor any of its subsidiaries is a party, and no property of these entities is subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the Bank's business. The Company does not know of any proceeding contemplated by a governmental authority against the Company or any of its subsidiaries.

Item 1.A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2021.

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

Issuer Repurchases of Equity Securities

None.

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Registered Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
4.1	Indenture, dated July 8, 2021, by and between Bridgewater Bancshares, Inc. and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 filed with the Form 8-K on July 8, 2021).
4.2	Forms of 3.25% Fixed-to-Floating Rate Subordinated Note due July 15, 2031 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.1 hereto and incorporated by reference to Exhibit 4.1 filed with the Form 8-K on July 8, 2021).
10.1	Form of Subordinated Note Purchase Agreement, dated July 8, 2021, by and among Bridgewater Bancshares, Inc. and the Purchasers (incorporated herein by reference to Exhibit 10.1 filed with the Form 8-K on July 8, 2021).
10.2	Form of Registration Rights Agreement, dated July 8, 2021, by and among Bridgewater Bancshares, Inc. and the Purchasers (incorporated herein by reference to Exhibit 10.2 filed with the Form 8-K on July 8, 2021).
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, and Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, and Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification 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	Certification 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
101.1	Financial information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, formatted in inline XBRL interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements
104	The cover page for Bridgewater Bancshares, Inc's Form 10-Q Report for the quarterly period ended June 30, 2021 formatted in inline XBRL and contained in Exhibit 101

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.

Bridgewater Bancshares, Inc.

Date: July 30, 2021	By:	**/s/** Jerry J. Baack
	Name:	Jerry J. Baack
	Title:	Chairman, Chief Executive Officer and President (Principal Executive Officer)
Date: July 30, 2021	By:	**/s/** Joe M. Chybowski
	Name:	Joe M. Chybowski
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jerry J. Baack, certify that:

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

July 30, 2021

/s/ Jerry J. Baack

Jerry J. Baack
Chairman, Chief Executive Officer and President

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joe M. Chybowski, certify that:

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

July 30, 2021

/s/ Joe M. Chybowski

Joe M. Chybowski
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Bridgewater Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jerry J. Baack, Chairman, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Dated: July 30, 2021

/s/ Jerry J. Baack
Jerry J. Baack
Chairman, Chief Executive Officer and President

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Bridgewater Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joe M. Chybowski, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Dated: July 30, 2021

/s/ Joe M. Chybowski
Joe M. Chybowski
Chief Financial Officer