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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2023
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 001-39068

METROCITY BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	**47-2528408** (I.R.S. Employer Identification No.)
5114 Buford Highway **Doraville , Georgia** (Address of principal executive offices)	**30340** (Zip Code)

(770) 455-4989
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each Exchange on which registered
Common Stock, par value $0.01 per share	MCBS	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

Emerging growth company ☒

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act (15 U.S.C. 762(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of June 30, 2023 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the common stock held by non-affiliates was $ 327.6 million based upon the closing price of $17.89 as reported on Nasdaq on June 30, 2023.

As of March 4, 2024, the registrant had 25,205,506 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2024 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2023.

METROCITY BANKSHARES, INC.
2023 ANNUAL REPORT ON FORM 10-K

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "strive," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors discussed elsewhere in this annual report and the following:

- general economic and business conditions in our local markets, including conditions affecting employment levels, interest rates, inflation, supply chains, the threat of recession, volatile equity capital markets, property and casualty insurance costs, collateral values, customer income, creditworthiness and confidence, spending and savings that may affect customer bankruptcies, defaults, charge-offs and deposit activity; and the impact of the foregoing on customer and client behavior (including the velocity and levels of deposit withdrawals and loan repayment);

- changes in interest rate environment (including changes to the federal funds rate, the level and composition of deposits (as well as the cost of, and competition for, deposits), loan demand, liquidity and the values of loan collateral, securities and market fluctuations, and interest rate sensitive assets and liabilities), and competition in our markets may result in increased funding costs or reduced earning assets yields, thus reducing our margins and net interest income;

- adverse developments in the banking industry highlighted by high-profile bank failures and the impact of such developments on customer confidence, liquidity and regulatory responses to these developments (including increases in the cost of our deposit insurance assessments and increased regulatory scrutiny), our ability to effectively manage our liquidity risk and any growth plans and the availability of capital and funding;

- our ability to comply with applicable capital and liquidity requirements, including our ability to generate liquidity internally or raise capital on favorable terms, including continued access to the debt and equity capital markets;

- the risk that a future economic downturn and contraction could have a material adverse effect on our capital, financial condition, credit quality, results of operations and future growth, including the risk that the strength of the current economic environment could be weakened by the continued impact of elevated or rising interest rates and inflation;

- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our borrowers and the success of various projects that we finance;

- concentration of our loan portfolio in real estate loans;

- changes in the prices, values and sales volumes of commercial and residential real estate, especially as they relate to the value of collateral supporting the Company's loans;

- weakness in the real estate market, including the secondary residential mortgage market, which can affect, among other things, the value of collateral securing mortgage loans, mortgage loan originations and delinquencies, profits on sales of mortgage loans, and the value of mortgage servicing rights;
- credit and lending risks associated with our construction and development, commercial real estate, commercial and industrial, residential real estate and Small Business Administration ("SBA") loan portfolios;
- negative impact in our mortgage banking services, including declines in our mortgage originations or profitability due to elevated or rising interest rates and increased competition and regulation, the Bank's or third party's failure to satisfy mortgage servicing obligations, loan modifications, the effects of judicial or regulatory requirements or guidance, and the possibility of the Bank being required to repurchase mortgage loans or indemnify buyers;
- our ability to attract sufficient loans that meet prudent credit standards, including in our construction and development, commercial and industrial and owner-occupied commercial real estate loan categories;
- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses ("ACL");
- the adequacy of our reserves (including ACL) and the appropriateness of our methodology for calculating such reserves;
- our ability to successfully execute our business strategy to achieve profitable growth;
- the concentration of our business within our geographic areas of operation and to the general Asian-American population within our primary market areas;
- our focus on small and mid-sized businesses;
- our ability to manage our growth;
- our ability to increase our operating efficiency;
- significant turbulence or a disruption in the capital or financial markets and the effect of a fall in stock market prices on our investment securities;
- risks that our cost of funding could increase, in the event we are unable to continue to attract stable, low-cost deposits and reduce our cost of deposits;
- a large percentage of our deposits are attributable to a relatively small number of customers;
- inability of our risk management framework (including internal controls) to effectively mitigate credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk (including by virtue of our relationships with third-party business partners, as well as our relationships with third-party vendors and other service providers), strategic risk, reputational risk and other risks inherent to the business of banking;
- our ability to maintain expenses in line with current projections;
- the makeup of our asset mix and investments;

- external economic, political and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- the institution and outcome of litigation and other legal proceeding against us or to which we may become subject to ;
- the impact of recent and future legislative and regulatory changes;
- examinations by our regulatory authorities;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies (including fintech companies), many of which are subject to different regulations than we are;
- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- restraints on the ability of the Bank to pay dividends to us, which could limit our liquidity;
- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- inaccuracies in our assumptions about future events, which could result in material differences between our financial projections and actual financial performance;
- changes in our management personnel or our inability to retain motivate and hire qualified management personnel;
- the dependence of our operating model on our ability to attract and retain experienced and talented bankers in each of our markets, which may be impacted as a result of labor shortages;
- our ability to identify and address cyber-security risks, fraud and systems errors, including the impact on our reputation and the costs and effects required to address such risks, fraud and systems errors;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems, and the cost of defending against them and any reputational or other financial risks following such a cybersecurity incident;
- our business relationships with, and reliance upon, third parties that have strategic partnerships with us or that provide key components of our business infrastructure, including the costs of services and products provided to us by third parties, and disruptions in service, security breaches, financial difficulties with or other adverse events affecting a third-party vendor or business relationship;
- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies;
- fraudulent and negligent acts by our clients, employees or vendors and our ability to identify and address such acts;
- risks related to potential acquisitions;

- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage origination, sale and servicing operations;
- changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverage;
- changes in our accounting standards;
- changes in tariffs and trade barriers;
- changes in federal tax law or policy;
- the effects of war or other conflicts (including Russia's military action in Ukraine and the ongoing conflict in Israel and the surrounding areas), acts of terrorism, acts of God, natural disasters, health emergencies, epidemics or pandemics, climate changes, or other catastrophic events that may affect general economic conditions;
- risks related to environmental, social and governance ("ESG") strategies and initiatives, the scope and pace of which could alter the Company's reputation and shareholder, associate, customer and third-party affiliations;
- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget; and
- other risks and factors identified in this Form 10-K under the heading "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" section herein.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Annual Report on Form 10-K. Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by the forward looking statements in this Annual Report on Form 10-K. In addition, our past results of operations are not necessarily indicative of our future results. You should not rely on any forward looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

Item 1. Business

Our Company

We are MetroCity Bankshares, Inc. (the "Company"), a bank holding company incorporated in 2014 and headquartered in the Atlanta metropolitan area. We operate through our wholly-owned banking subsidiary, Metro City Bank, a Georgia state-chartered commercial bank that was founded in 2006 (the "Bank"). We currently operate 20 full-service branch locations in multi-ethnic communities in Alabama, Florida, Georgia, New York, New Jersey, Texas and Virginia. As of December 31, 2023, we had total assets of $3.50 billion, total loans held for investment of $3.14 billion, total deposits of $2.73 billion and total shareholders' equity of $381.5 million.

We are a full-service commercial bank focused on delivering personalized service in an efficient and reliable manner to the small- to medium-sized businesses and individuals in our markets, predominantly Asian-American communities in growing metropolitan markets in the Eastern U.S. and Texas. We offer a suite of loan and deposit products tailored to meet the needs of the businesses and individuals already established in our communities, as well as first generation immigrants who desire to establish and grow their own businesses, purchase a home, or educate their children in the United States. Through our diverse and experienced management team and talented employees, we are able to speak the language of our customers and provide them with services and products in a culturally competent manner.

We have successfully grown our franchise since our founding primarily through de novo branch openings in vibrant, diverse markets where we feel our banking products and services will be well-received. We have a proven track record of opening these new branches in a disciplined, cost efficient manner, without compromising the quality of our customer service or our profitability. Our consistent expansion efforts have given us the know-how and expertise to lower the cost of opening and operating de novo branches, allowing each of these branches to quickly become profitable.

We believe that our culturally familiar approach to banking, our tailored lending products, our branch network located in attractive Asian-American communities, and our highly replicable growth model have laid the foundation for achieving sustainable, profitable growth.

We completed an initial public offering of our common stock in October 2019 as an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Our common stock is listed on the Nasdaq Global Select Market under the symbol “MCBS”.

Our Markets

We are located primarily in the Atlanta metropolitan area with our headquarters in Doraville, Georgia. Our 20 full-service branch locations in Alabama, Florida, Georgia, New York, New Jersey, Texas and Virginia are located in growing multi-ethnic communities. Additionally, we continue to monitor attractive markets where we would like to expand our presence.

Lending Activities

We maintain a diversified loan portfolio based on the type of customer (i.e., businesses compared to individuals), type of loan product (e.g., construction and development loans, commercial real estate loans (both owner occupied and non-owner occupied), commercial and industrial loans, residential mortgage loans, SBA loans, etc.), geographic location and industries in which our business customers are engaged (e.g., retail, hospitality, etc.). We principally focus our lending activities on loans that we originate from borrowers located in our market areas. We seek to be the premier provider of lending products to the small to medium-sized businesses and individual borrowers in the communities that we serve. Lending activities primarily originate from the relationships and efforts of our bankers, with an emphasis on providing banking solutions tailored to meet our customers’ needs while maintaining our underwriting standards.

The sections below discuss our general loan categories. As of December 31, 2023 and 2022 our loan portfolio held for investment consisted of the following:

	December 31, 2023		December 31, 2022	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total
Construction and Development	$ 23,262	0.7 %	$ 47,779	1.6 %
Commercial Real Estate	711,177	22.6	657,246	21.4
Commercial and Industrial	65,904	2.1	53,173	1.7
Residential Real Estate	2,350,299	74.6	2,306,915	75.3
Consumer and other	319	—	216	—
Gross loans	$ 3,150,961	100.0	$ 3,065,329	100.0
Less unearned income	(8,856)		(9,640)	
Total loans held for investment	$ 3,142,105		$ 3,055,689	

Construction and Development Loans. Our construction and development loans are comprised of commercial construction and land acquisition and development construction loans. As of December 31, 2023, the outstanding balance of our construction and development loans was $23.3 million, or 0.7%, of our total loan portfolio held for investment, compared to $47.8 million, or 1.6%, of our total loan portfolio held for investment at December 31, 2022. As of December

31, 2023, $14.3 million, or 61.7%, of construction and development loans were for the construction of office buildings and commercial rental properties; $3.5 million, or 15.0%, were for the construction of physician's offices and nursing homes; $1.9 million, or 8.2%, were for the construction of liquor stores; $1.7 million, or 7.2%, were for the construction of hardware stores; and the remaining $1.9 million, or 7.9%, were loans distributed amongst various industries and sectors.

Interest reserves are generally established on real estate construction loans. These loans typically carry a fixed interest rate and have maturities of less than 18 months. Our loan-to-value, or LTV, policy limit for our construction and development loans is 65%. The risks inherent in construction lending may affect adversely our results of operations. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take-out financing. Loans secured by such properties also involve additional risk because they have no operating history. Advances on construction loans are made relative to the overall percentage of completion on the project in an effort to remain adequately secured.

We had approximately $548,000 of construction and development loans on nonaccrual status as of December 31, 2023. We had no construction and development loans that were classified as nonaccrual as of December 31, 2022.

Commercial Real Estate Loans. We offer commercial real estate loans collateralized by real estate, which may be owner occupied or non-owner occupied real estate. Commercial real estate loans made up $711.2 million, or 22.6%, of our total loan portfolio held for investment at December 31, 2023, compared to $657.2 million, or 21.4%, of our total loan portfolio held for investment as of December 31, 2022. As of December 31, 2023, $656.9 million, or 92.4%, of our commercial real estate loans were secured by owner occupied properties and the remaining $54.3 million, or 7.6%, of loans in this category were secured by non-owner occupied properties. Within our commercial real estate loans, $310.7 million, or 43.7%, were to hotels and restaurants; $149.7 million, or 21.1%, were made to wholesalers or retailers; $113.0 million, or 15.9%, were to general service business; $69.8 million, or 9.8%, were to commercial rental properties; and the remaining $68.0 million, or 9.5%, were distributed amongst various sectors and industries.

Commercial real estate lending typically involves higher loan principal amounts relative to our other lending products, and the repayment is dependent, in large part, on sufficient cash flow from the properties securing the loans. We believe our management team and board of directors has put in place comprehensive and robust underwriting guidelines, and takes a conservative approach to commercial real estate lending, focusing on what we believe to be high quality credits with low LTV ratios and income-producing properties with strong cash flow characteristics, and strong collateral profiles.

We require our commercial real estate loans to be secured by what we believe to be well-managed property with adequate margins and we generally obtain a personal guarantee from responsible parties. Our commercial real estate loans are secured by a wide variety of property types, such as retail operations, hospitality, specialty service operations and warehouses for wholesale distribution. We originate both fixed-rate and adjustable-rate loans with terms up to 25 years. Fixed-rate loans have provisions which allow us to call the loan after three to five years. Adjustable-rate loans are generally based on the Wall Street Journal Prime Rate ("WSJPR") or the Secured Overnight Financing Rate ("SOFR"), and as of December 31, 2023, most of our loans were based on WSJPR. At December 31, 2023, approximately 28.9% of the commercial real estate loan portfolio consisted of fixed rate loans. Our conventional commercial real estate loans, or non-SBA guaranteed commercial real estate loans, carried a weighted average maturity of 5.52 years as of December 31, 2023. Non-SBA commercial real estate loan amounts generally do not exceed 65% of the lesser of the appraised value or the purchase price depending on the property appraisals we utilize. Our LTV policy limits are 85% for commercial real estate loans. In addition, we limit our lending on non-owner occupied commercial real estate to 100% of total bank capital.

The total balance of commercial real estate loans on nonaccrual status was $991,000 and $4.9 million as of December 31, 2023 and 2022, respectively.

Commercial and Industrial Loans. We provide a mix of variable and fixed rate commercial and industrial loans. Commercial and industrial loans represented $65.9 million, or 2.1%, of our total loan portfolio held for investment as of December 31, 2023, compared to $53.2 million, or 1.7%, of our total loan portfolio held for investment at December 31, 2022. As of December 31, 2023, $27.0 million, or 41.0%, of our commercial and industrial loans were extended to businesses in warehousing, wholesale and retail trade; $11.2 million, or 17.0%, were loans made to hotels and restaurants;

and the remaining $27.7 million, or 42.0%, of loans were distributed across various industries and sectors. We had approximately $1.3 million and $136,000 of commercial and industrial loans on nonaccrual status as of December 31, 2023 and 2022, respectively.

Our commercial and industrial loans are typically made to small and medium-sized businesses for working capital needs, business expansions and for trade financing. We extend commercial business loans on an unsecured and secured basis advanced for working capital, accounts receivable and inventory financing, machinery and equipment purchases, and other business purposes. Generally, short-term loans have maturities ranging from six months to one year, and “term loans” have maturities ranging from five to ten years. Loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans generally provide for floating interest rates, with monthly payments of both principal and interest. Repayment of secured and unsecured commercial loans depends substantially on the borrower’s underlying business, financial condition and cash flows, as well as the sufficiency of the collateral. Compared to real estate, the collateral may be more difficult to monitor, evaluate and sell. When the borrower is a corporation, partnership or other entity, we typically require personal guarantees from significant equity holders. Our LTV policy limits on commercial and industrial loans range from a maximum LTV of 75% when secured by new machinery and equipment down to 5% when only secured by leasehold improvements.

We also provide trade finance-related services to our customers such as domestic and international letters of credit, international collection (documents against acceptance and documents against payment) and export advice. We issue standby letters of credit on behalf of our customers to facilitate trade and other financial guarantees. All trade finance related services are denominated in U.S. currency and all facilities are fully collateralized with no foreign exchange or credit exposure.

In general, commercial and industrial loans may involve increased credit risk and, therefore, typically yield a higher return. The increased risk in commercial and industrial loans derives from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, including tariffs, could materially affect the ability of the borrower to repay the loan. In addition, the collateral securing commercial and industrial loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate exposing us to increased credit risk. As a result of these additional complexities, variables and risks, commercial and industrial loans require extensive monitoring and servicing.

SBA Loans. A significant portion of our commercial real estate portfolio consists of SBA and USDA loans. Our SBA loans are typically made to retail businesses including, car wash stations, grocery stores, poultry farms, warehouses, convenience stores, hospitality and service businesses, car dealers, beauty supplies, restaurants, and beer, wine, and liquor stores for acquisition of business properties, working capital needs and business expansions. Our SBA loans are typically secured by commercial real estate and can have any maturity up to 25 years. Depending on the loan amount, each loan is typically guaranteed 75% to 90% by the SBA, with a maximum gross loan amount to any one small business borrower of $5 million and a maximum SBA guaranteed amount of $3.75 million.

As of December 31, 2023, our commercial real estate SBA and USDA portfolio, net of any sold portions, totaled $254.2 million. This represents a decrease of $15.6 million when compared to the December 31, 2022 balance of $269.8 million. Of the balance outstanding at December 31, 2023, $99.3 million, or 39.1%, of the loans in this portfolio carried an SBA guarantee while the remaining $154.9 million, or 60.9%, of the portfolio was unguaranteed.

In addition, as part of our commercial and industrial loan product offering, we originate SBA loans to provide working capital and to finance inventory, equipment and machinery purchases and acquisitions. As of December 31, 2023 and 2022, the outstanding balance of our commercial and industrial SBA loans was $32.7 million and $34.5 million respectively. Of the balance outstanding as of December 31, 2023, $17.1 million, or 52.3%, of our commercial and industrial SBA portfolio carried a guarantee from the SBA while the remaining $15.6 million, or 47.7%, of the portfolio was unguaranteed. We are willing to maintain higher LTVs on our SBA portfolio than the remainder of our commercial loans because the effect of the SBA guarantee is to lower overall risk.

We retain the servicing rights on the sold portions of the SBA and USDA loans we originate. As of December 31, 2023, we serviced $508.0 million in SBA/USDA loans for others, an increase of $42.9 million, or 9.2%, when compared to December 31, 2022. We recognized servicing income on SBA loans of $4.8 million, $1.8 million, and $5.9 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Residential Real Estate Loans. We originate mainly non-conforming residential mortgage loans through our branch network. During 2023, our primary loan products offered were 15-year and 30-year fixed rate products, as well as a three-year, five-year and ten-year hybrid adjustable rate mortgages which reprice annually after the initial term based on the weekly average of the one year constant maturity treasury (CMT) plus a fixed spread. Loans collateralized by single-family residential real estate generally are originated in amounts of no more than 65% of appraised value. In connection with such loans, we retain a valid first lien on real estate, obtain a title insurance policy that insures that the property is free from material encumbrances and require hazard insurance. Loan fees, interest rates and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

We take a comprehensive and conservative approach to our mortgage underwriting, allowing a maximum LTV ratio of 65%. As of December 31, 2023, we had $2.35 billion of residential real estate loans, representing 74.6% of our total loan portfolio held for investement compared to $2.31 billion, or 75.3%, of our total loan portfolio held for investment at December 31, 2022. Residential mortgage loans held for sale totaled $22.3 million as of December 31, 2023. We had no residential mortgage loans held for sale as of December 31, 2022. Nonaccrual residential mortgage loans were $11.9 million and $5.0 million at December 31, 2023 and 2022, respectively.

On occasion, we sell a portion of our non-conforming residential mortgage loans to third party investors. The loans are sold with no representation or warranties if the loan pays off early. During 2023, we originated $337.0 million of non-conforming residential mortgage loans, but did not sell any loans to investors during this period. During 2022, we originated $833.6 million of non-conforming residential mortgage loans and sold $94.9 million to our investors. Residential mortgage loans held for sale are sold with the servicing rights retained by the Bank. As of December 31, 2023, the amount of residential mortgage loans serviced for others fell to $443.1 million representing a decrease of $83.6 million, or 15.9%, when compared to December 31, 2022. We recognized servicing income on residential mortgage loans of $193,000 (expense balance), $561,000 (expense balance), and $564,000 (expense balance) for the years ended December 31, 2023, 2022 and 2021, respectively. The servicing income recognized is net of amortization of our mortgage servicing rights which caused the expense balance for the years ended December 31, 2023, 2022 and 2021.

Consumer and Other Loans. These loans represent a very small portion of our overall portfolio and primarily consists of overdrafts and consumer lines of credit. Consumer loans carry a greater amount of risk and collections are dependent on the borrower’s continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans.

Other Products and Services

We offer banking products and services that are competitively priced with a focus on convenience and accessibility. We offer a full suite of online banking solutions including access to account balances, online transfers, online bill payment and electronic delivery of customer statements, mobile banking solutions for iPhone and Android phones, including remote check deposit with mobile bill pay. We offer ATMs and banking by telephone, mail and personal appointment. We offer debit cards with no ATM surcharges or foreign ATM fees for checking customers, direct deposit, cashier’s checks, as well as treasury management services, wire transfer services and automated clearing house (“ACH”) services.

We offer a full array of commercial treasury management services designed to be competitive with banks of all sizes. Treasury management services include balance reporting (including current day and previous day activity), transfers between accounts, wire transfer initiation, ACH origination and stop payments. Cash management deposit products consist of remote deposit capture, positive pay, zero balance accounts and sweep accounts.

We evaluate our services on an ongoing basis, and will add or remove services based upon the perceived needs and financial requirements of our customers, competitive factors and our financial and other capabilities. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal laws and regulations.

Securities

We manage our securities portfolio to balance the market and credit risks of our other assets and the Bank's liability structure, with a secondary focus of profitably deploying funds which are not needed to fulfill current loan demand, deposit redemptions or other liquidity purposes. Our investment portfolio is comprised primarily of U.S. government agency securities, mortgage-backed securities backed by government-sponsored entities, and taxable and tax exempt municipal securities. We also have equity securities that consist of our investment in a mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts.

Our investment policy is reviewed annually by our board of directors. Overall investment goals are established by our board of directors and members of our Asset-Liability Committee ("ALCO"). Day-to-day activities pertaining to the securities portfolio are conducted under the supervision of our Chief Executive Officer. During its quarterly ALCO meetings, the committee reviews the Bank's investment portfolio for any significant changes or risks. We actively monitor our investments on an ongoing basis to identify any material changes in the securities. We also review our securities for potential other-than-temporary impairment at least quarterly.

Deposits

We offer traditional depository products, including checking, savings, money market and certificates of deposits, to individuals, businesses, municipalities and other entities through our branch network throughout our market areas. Deposits at the Bank are insured by the FDIC up to statutory limits. Our ability to gather deposits, particularly core deposits, is an important aspect of our business and we believe core deposits are a significant driver of value as a cost efficient and stable source of funding to support our growth. As of December 31, 2023, we had $2.73 billion of total deposits with a total weighted average deposit cost of 3.04%. Of our total deposits as of December 31, 2023, $639.5 million, or 23.4%, of total deposits were held in demand deposit accounts.

As a bank focusing on successful businesses and their owners, many of our depositors choose to leave large deposits with us. We consider a deposit relationship to be core by considering the following factors: (i) relationships with us (as a director or shareholder); (ii) deposits within our market area; (iii) additional non-deposit services with us; (iv) electronic banking services with us; (v) active demand deposit account with us; (vi) loans; and (vii) longevity of the relationship with us. We calculate core deposits by adding demand and savings deposits plus time deposits less than $250,000 plus deposits that are over $250,000, if such depositors meet the relationship criteria listed above. As many of our customers have more than $250,000 on deposit with us, we believe that using this method reflects a more accurate assessment of our deposit base. As of December 31, 2023, 67.3%, or $1.84 billion, of our deposits were considered core deposits.

While we are focused on growing our low-cost deposits, we also utilize brokered deposits, subject to certain limitations and requirements, as a source of funding to support our asset growth and augment the deposits generated from our branch network. Our level of brokered deposits varies from time to time depending on competitive interest rate conditions and other factors and tends to increase as a percentage of total deposits when the brokered deposits are less costly than issuing internet certificates of deposit or borrowing from the Federal Home Loan Bank. As of December 31, 2023, we had brokered deposits of $766.3 million compared to $523.7 million of brokered deposits at December 31, 2022.

We use interest rate swap and cap agreements to hedge our deposit accounts that are indexed to the Federal Funds Effective rate (includes all of our brokered deposits). These swap agreements are designated as cash flow hedges. As of December 31, 2023, the total amount of deposits tied to the Federal Funds Effective rate was $929.2 million. See Note 10 of our consolidated financial statements as of December 31, 2023, included elsewhere in this Annual Report on Form 10-K, for additional information.

As of December 31, 2023, our fifteen largest depositor relationships, excluding brokered deposits, totaled $314.3 million, or 11.5%, of total deposits. Our deposits with directors and affiliated entities totaled $10.2 million for the same period.

Competition

We operate in a highly competitive market. Competitors include other banks, credit unions, mortgage companies, personal and commercial financing companies, investment brokerage and advisory firms, mutual fund companies and insurance companies. Competitors range in both size and geographic footprint. We operate throughout Georgia and the Southeast, as well as New York, New Jersey, Texas, and Virginia. The Bank's competition includes not only other banks of comparable or larger size in the same markets, but also various other nonbank financial institutions, including savings and loan associations, credit unions, mortgage companies, personal and commercial financial companies, peer to peer lending businesses, fintech companies, investment brokerage and financial advisory firms and mutual fund companies. The Bank competes for deposits, commercial, fiduciary and investment services and various types of loans and other financial services. The Bank also competes for interest-bearing funds with a number of other financial intermediaries, including brokerage and insurance firms, as well as investment alternatives, including mutual funds, governmental and corporate bonds, and other securities. Continued consolidation and rapid technological changes within the financial services industry will likely change the nature and intensity of competition, but also will create opportunities for the Company to demonstrate and leverage its competitive advantages. The continuing consolidation within the financial services industry is leading to larger, better capitalized and geographically diverse institutions with enhanced product and technology capabilities. Additionally, competition from fintechs is increasing. In addition to fintechs, certain technology companies are working to provide financial services directly to their customers. These nontraditional financial service providers have been successful in developing digital and other products and services that effectively compete with traditional banking services, but are in some cases subject to fewer regulatory restrictions than banks and bank holding companies, allowing them to operate with greater flexibility and lower cost structures. Although digital products and services have been important competitive features of financial institutions for some time, the COVID-19 pandemic accelerated the move toward digital financial services products and we expect that trend to continue.

Competitors include not only financial institutions based in Georgia, but also a number of large out-of-state and foreign banks, bank holding companies and other financial institutions that have an established market presence in Georgia or that offer internet-based products. Many of the Company's competitors are engaged in local, regional, national and international operations and have greater assets, personnel and other resources. Some of these competitors are subject to less regulation and/or more favorable tax treatment. Many of these institutions have greater resources, broader geographic markets and higher lending limits, and may offer services that the Company does not offer. In addition, these institutions may be able to better afford and make broader use of media advertising, support services, and electronic and other technology. To offset these potential competitive disadvantages, the Company depends on its reputation for superior service, ability to make credit and other business decisions quickly, and the delivery of an integrated distribution of traditional branches and bankers, with digital technology.

Liquidity

Our deposit base consists primarily of business accounts and deposits from the principals of such businesses. As a result, we have many depositors with balances over $250,000. We manage liquidity based upon factors that include the amount of core deposit relationships as a percentage of total deposits, net loans to total deposits, the level of diversification of our funding sources, the allocation and amount of our deposits among deposit types, the short-term funding sources used to fund assets, the amount of non-deposit funding used to fund assets such as fed funds and account receivables, the availability of unused funding sources, off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold, and the re-pricing characteristics and maturities of our assets when compared to the re-pricing characteristics of our liabilities and other factors.

We evaluate our net loans to total assets and net loans (excluding loans held for sale) to total deposit ratios as a method to monitor our liquidity position. Our board of directors has limited our net loans to a maximum of 90% of total Bank assets and our net loans to a maximum of 125% of total Bank deposits. As of December 31, 2023, our net loans were

89.2% of total assets and net loans were 114.4% of total deposits. As of December 31, 2022, our net loans were 88.8% of total assets and net loans were 114.1% of total deposits. We were in compliance with both limits for each period presented.

Human Capital Resources

We recognize that our most valuable asset is our people. One of our top strategic priorities is the retention and development of our talent. This includes providing career development opportunities for all associates; increasing our diversity and inclusion; training our next generation of leaders; and succession planning.

As of December 31, 2023, we had approximately 220 full-time equivalent employees. None of our employees are represented by any collective bargaining unit or is a party to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Of the 220 full-time equivalent employees as of December 31, 2023, 80.5% identify as a female and 95.9% are persons of color. Included in the 220 full-time equivalent employees are 49 employees who have management roles. Of these 49 management roles, 67.3% of the managers identify as a female and 91.8% are persons of color.

Talent Acquisition, Development, and Retention

Our culture emphasizes our longstanding dedication to being respectful to others and having a workforce that is representative of the communities we serve. Diversity and inclusion are fundamental to our culture. Our future success depends on our ability to attract, retain and develop employees. Our talent acquisition teams partner with hiring managers in sourcing and presenting a diverse slate of qualified candidates to strengthen our organization. Professional development is a key priority, which is facilitated through our many corporate development initiatives including training programs, corporate mentoring, and educational reimbursement.

Our board of directors recognizes the importance of succession planning for our chief executive officer and other key executives. The board of directors annually reviews our succession plans for senior leadership roles, with the goal of ensuring we will continue to have the right leadership talent in place to execute the organization's long-term strategic plans.

Health and Welfare

As part of our effort to attract and retain employees, we offer a broad range of benefits, including health, dental and vision insurance, life and disability insurance, cell phone reimbursement, educational tuition reimbursement, 401(k) retirement plan, and generous paid time off. We believe our compensation package and benefits are competitive with others in our industry.

Corporate Information

Our principal executive offices are located at 5114 Buford Highway, Doraville, Georgia 30340, and our telephone number at that address is (770) 455-4989. Our website address is www.metrocitybank.bank. The information contained on or accessible from our website does not constitute a part of this Annual Report on Form 10-K and is not incorporated by reference herein.

Public Information

Persons interested in obtaining information on the Company may read and copy any materials that we file with the U.S. Securities and Exchange Commission ("SEC"). The Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. We make available, free of charge, on or through our website, https://www.metrocitybank.bank/investor-relations/sec-filings, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and amendments to such filings, as soon as reasonably practicable after each is electronically filed with, or furnished to, the SEC.

Regulation and Supervision

General

We are extensively regulated under federal and state law. The following is a brief summary that does not purport to be a complete description of all regulations that affect us or all aspects of those regulations. This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions described below and is not intended to be an exhaustive description of the statutes or regulations applicable to the Company's and the Bank's business. In addition, proposals to change the laws and regulations governing the banking industry are frequently raised at both the state and federal levels. The likelihood and timing of any changes in these laws and regulations, and the impact such changes may have on us and the Bank, are difficult to predict. In addition, bank regulatory agencies may issue enforcement actions, policy statements, interpretive letters and similar written guidance applicable to us or the Bank. Changes in applicable laws, regulations or regulatory guidance, or their interpretation by regulatory agencies or courts may have a material adverse effect on our and the Bank's business, operations, and earnings. Supervision and regulation of banks, their holding companies and affiliates is intended primarily for the protection of depositors and customers, the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"), and the U.S. banking and financial system rather than holders of our capital stock.

Regulation of the Company

We are registered as a bank holding company with the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). As such, we are subject to comprehensive supervision and regulation by the Federal Reserve and are subject to its regulatory reporting requirements. Federal law subjects bank holding companies, such as the Company, to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. Violations of laws and regulations, or other unsafe and unsound practices, may result in regulatory agencies imposing fines or penalties, cease and desist orders, or taking other enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and other parties participating in the affairs of a bank or bank holding company.

Activity Limitations. Bank holding companies are generally restricted to engaging in the business of banking, managing or controlling banks and certain other activities determined by the Federal Reserve to be closely related to banking. In addition, the Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any nonbanking activity or terminate its ownership or control of any nonbank subsidiary, when it has reasonable cause to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

Source of Strength Obligations. A bank holding company is required to act as a source of financial and managerial strength to its subsidiary bank and to maintain resources adequate to support its bank. The term "source of financial strength" means the ability of a company, such as us, that directly or indirectly owns or controls an insured depository institution, such as the Bank, to provide financial assistance to such insured depository institution in the event of financial distress. The appropriate federal banking agency for the depository institution (in the case of the Bank, this agency is the FDIC) may require reports from us to assess our ability to serve as a source of strength and to enforce compliance with the source of strength requirements by requiring us to provide financial assistance to the Bank in the event of financial distress. If we were to enter bankruptcy or become subject to the orderly liquidation process established by the Dodd-Frank Act, any commitment by us to a federal bank regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee or the FDIC, as appropriate, and entitled to a priority of payment.

Acquisitions. The BHC Act permits acquisitions of banks by bank holding companies, such that we and any other bank holding company, whether located in Georgia or elsewhere, may acquire a bank located in any other state, subject to certain deposit-percentage, age of bank charter requirements, and other restrictions. The BHC Act requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any additional bank or bank holding company, (ii) taking any action that causes an additional bank or bank holding company to become a subsidiary of the bank holding company, or (iii) merging or consolidating with any other bank holding company. The Federal Reserve may not approve any such transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider: (1) the financial and managerial resources of the companies involved, including pro forma capital ratios; (2) the risk to the stability of the United States banking or financial system; (3) the convenience and needs of the communities to be served, including performance under the Community Reinvestment Act, further described below; and (4) the effectiveness of the companies in combatting money laundering.

Change in Control. Federal law restricts the amount of voting stock of a bank holding company or a bank that a person may acquire without the prior approval of banking regulators. Under the Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, such as the Company, and the FDIC before acquiring control of the Bank. Upon receipt of such notice, the bank regulatory agencies may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a person or group acquires the power to vote 10% or more of our outstanding common stock. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Investors should be aware of these requirements when acquiring shares of our stock.

Sarbanes-Oxley Act of 2002. As a public company that files periodic reports with the SEC, under the Exchange Act, the Company is subject to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. Our policies and procedures are designed to comply with the requirements of the Sarbanes-Oxley Act.

Corporate Governance. The Dodd-Frank Act addresses many investor protections, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers.

Incentive Compensation. The Dodd-Frank Act required the banking agencies and the SEC to establish joint rules or guidelines for financial institutions with more than $1 billion in assets, such as us and the Bank, which prohibit incentive compensation arrangements that the agencies determine to encourage inappropriate risks by the institution. The federal banking agencies issued proposed rules in 2011 and previously issued guidance on sound incentive compensation policies. In 2016, the federal banking agencies also proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2023, these rules have not been implemented, although the SEC did adopt final rules implementing the clawback provisions of the Dodd-Frank Act in 2022. We and the Bank have undertaken efforts to ensure that our incentive compensation plans do not encourage inappropriate risks, consistent with three key principles - that incentive compensation arrangements should appropriately balance risk and financial rewards, be compatible with effective controls and risk management, and be supported by strong corporate governance.

Shareholder Say-On-Pay Votes. The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote, and the golden parachutes available to executives in connection with change-in-control transactions. Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially. The say-on-pay, the say-on-parachute and the say-on-frequency votes are explicitly nonbinding and cannot override a decision of our board of directors.

Other Regulatory Matters. We and our subsidiaries are subject to oversight by the SEC, the Financial Industry Regulatory Authority ("FINRA"), the PCAOB, the Nasdaq Stock Market and various state securities regulators. We and our subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state attorneys general, securities regulators and other regulatory authorities, concerning our business practices. Such requests are considered incidental to the normal conduct of business.

Capital Requirements

The Company and the Bank are each required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account in assessing an institution's overall capital adequacy. The following is a brief description of the relevant provisions of these capital rules and their potential impact on our capital levels.

The Company and the Bank are subject to the following risk-based capital ratios: a common equity Tier 1 ("CET1") risk-based capital ratio, a Tier 1 risk-based capital ratio, which includes CET1 and additional Tier 1 capital, and a total risk-based capital ratio, which includes Tier 1 and Tier 2 capital. CET1 is primarily comprised of the sum of common stock instruments and related surplus net of treasury stock, plus retained earnings, and certain qualifying minority interests, less certain adjustments and deductions, including with respect to goodwill, intangible assets, mortgage servicing assets and deferred tax assets subject to temporary timing differences. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock, tier 1 minority interests and grandfathered trust preferred securities. Tier 2 capital consists of instruments disqualified from Tier 1 capital, including qualifying subordinated debt, other preferred stock and certain hybrid capital instruments, and a limited amount of loan loss reserves up to a maximum of 1.25% of risk-weighted assets, subject to certain eligibility criteria. The capital rules also define the risk-weights assigned to assets and off-balance sheet items to determine the risk-weighted asset components of the risk-based capital rules, including, for example, certain "high volatility" commercial real estate, past due assets, structured securities and equity holdings.

The leverage capital ratio, which serves as a minimum capital standard, is the ratio of Tier 1 capital to quarterly average total consolidated assets net of goodwill, certain other intangible assets, and certain required deduction items. The required minimum leverage ratio for all banks is 4%.

In addition, as of January 1, 2019, the capital rules require a capital conservation buffer of 2.5%, constituted of CET1, above each of the minimum capital ratio requirements (CET1, Tier 1, and total risk-based capital), which is designed to absorb losses during periods of economic stress. These buffer requirements must be met for a bank or bank holding company to be able to pay dividends, engage in share buybacks or make discretionary bonus payments to executive management without restriction.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, requires the federal bank regulatory agencies to take "prompt corrective action" regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized.

To be well-capitalized, the Bank must maintain at least the following capital ratios:

- 6.5% CET1 to risk-weighted assets;
- 8.0% Tier 1 capital to risk-weighted assets;
- 10.0% Total capital to risk-weighted assets; and
- 5.0% leverage ratio.

The Federal Reserve has not yet revised the well-capitalized standard for bank holding companies to reflect the higher capital requirements imposed under the current capital rules. If the Federal Reserve were to apply the same or a similar well-capitalized standard to bank holding companies as that applicable to the Bank, the Company's capital ratios as of December 31, 2023 would exceed such revised well-capitalized standard. Also, the Federal Reserve may require bank holding companies, including the Company, to maintain capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. For example, only a well-capitalized depository institution may accept brokered deposits without prior regulatory approval. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Bank's ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications or other restrictions on its growth.

As of December 31, 2023 and 2022, the Bank's regulatory capital ratios were above the applicable well-capitalized standards and met the then-applicable capital conservation buffer.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act") signed into law in May 2018 scaled back certain requirements of the Dodd-Frank Act and provided other regulatory relief. Among the provisions of the Economic Growth Act was a requirement that the Federal Reserve raise the asset threshold for those bank holding companies subject to the Federal Reserve's Small Bank Holding Company Policy Statement ("Policy Statement") to $3 billion. As a result, as of the effective date of that change in 2018, the Company was no longer required to comply with the risk-based capital rules applicable to the Bank as described above. However, in the 4th quarter of 2021, the Company's assets exceeded $3 billion for the first time, such that the Company started being subject to consolidated risk-based capital requirements beginning in 2022.

As a result of the Economic Growth Act, the federal banking agencies were also required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under prompt corrective action statutes. The federal banking agencies may consider a financial institutions risk profile when evaluation whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies set the minimum capital for the new Community Bank Leverage Ratio at 9%. The Bank has not opted into the Community Bank Leverage Ratio Framework.

As of December 31, 2023, the Company's regulatory capital ratios were above the applicable regulatory capital standards including the capital conservation buffer.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the "current expected credit losses" ("CECL") accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL (the Company did not elect to utilze this phase-in period); and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, which introduced CECL as the methodology to replace the current “incurred loss” methodology for financial assets measured at amortized cost, and changed the approaches for recognizing and recording credit losses on available-for-sale debt securities and purchased credit impaired financial assets. Under the incurred loss methodology, credit losses are recognized only when the losses are probable or have been incurred; under CECL, companies are required to recognize the full amount of expected credit losses for the lifetime of the financial assets, based on historical experience, current conditions and reasonable and supportable forecasts. This change will result in earlier recognition of credit losses that the Company deems expected but not yet probable. For SEC reporting companies with emerging growth company designation and December 31 fiscal-year ends, such as the Company, CECL became effective beginning with the first quarter of 2023.

Payment of Dividends

We are a legal entity separate and distinct from the Bank and our other subsidiaries. Our primary source of cash, other than securities offerings, is dividends from the Bank. Under the laws of the State of Georgia, we, as a business corporation, may declare and pay dividends in cash or property unless the payment or declaration would be contrary to restrictions contained in our Articles of Incorporation, or unless, after payment of the dividend, we would not be able to pay our debts when they become due in the usual course of our business or our total assets would be less than the sum of our total liabilities. In addition, we are also subject to federal regulatory capital requirements that effectively limit the amount of cash dividends that we may pay.

The primary sources of funds for our payment of dividends to our shareholders are cash on hand and dividends from the Bank. Various federal and state statutory provisions and regulations limit the amount of dividends that the Bank and our non-bank subsidiaries may pay. The Bank is a Georgia bank. Under the regulations of the Georgia Department of Banking & Finance (“GA DBF”), a Georgia bank must have approval of the GA DBF to pay cash dividends if, at the time of such payment:

- the ratio of Tier 1 capital to average total assets is less than 6 percent;
- the aggregate amount of dividends to be declared or anticipated to be declared during the current calendar year exceeds 50 percent of its net after-tax profits before dividends for the previous calendar year; or
- its total adversely classified assets in its most recent regulatory examination exceeded 80 percent of its Tier 1 capital plus its allowance for loan and lease losses.

The Georgia Financial Institutions Code contains restrictions on the ability of a Georgia bank to pay dividends other than from retained earnings without the approval of the GA DBF. As a result of the foregoing restrictions, the Bank may be required to seek approval from the GA DBF to pay dividends.

In addition, we and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal bank regulatory authority may prohibit the payment of dividends where it has determined that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The FDIC and the Federal Reserve have indicated that paying dividends that deplete a bank’s capital base to an inadequate level would be an unsafe and unsound banking practice. The FDIC and the Federal Reserve have each indicated that depository institutions and their holding companies should generally pay dividends only out of current operating earnings. Prior approval by the FDIC is required if the total of all dividends declared by a bank in any calendar year exceeds the bank’s profits for that year combined with its retained net profits for the preceding two calendar years.

Under a Federal Reserve policy adopted in 2009, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;

- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or

- it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Regulation of the Bank

The Bank is subject to comprehensive supervision and regulation by the FDIC and is subject to its regulatory reporting requirements. The Bank also is subject to certain Federal Reserve regulations. In addition, as discussed in more detail below, the Bank and any other of our subsidiaries that offer consumer financial products and services are subject to regulation and potential supervision by the CFPB. Authority to supervise and examine the Company and the Bank for compliance with federal consumer laws remains largely with the Federal Reserve and the FDIC, respectively. However, the CFPB may participate in examinations on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. The CFPB also may participate in examinations of our other direct or indirect subsidiaries that offer consumer financial products or services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce certain federal consumer financial protection rules adopted by the CFPB.

Broadly, regulations applicable to the Bank include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital and liquidity ratios; the granting of credit under equal and fair conditions; the disclosure of the costs and terms of such credit; requirements to maintain reserves against deposits and loans; limitations on the types of investment that may be made by the Bank; and requirements governing risk management practices. The Bank is permitted under federal law to branch on a de novo basis across state lines where the laws of that state would permit a bank chartered by that state to open a de novo branch.

Transactions with Affiliates and Insiders. The Bank is subject to restrictions on extensions of credit and certain other transactions between the Bank and the Company or any nonbank affiliate. Generally, these covered transactions with either the Company or any affiliate are limited to 10% of the Bank's capital and surplus, and all such transactions between the Bank and the Company and all of its nonbank affiliates combined are limited to 20% of the Bank's capital and surplus. Loans and other extensions of credit from the Bank to the Company or any affiliate generally are required to be secured by eligible collateral in specified amounts. In addition, any transaction between the Bank and the Company or any affiliate are required to be on an arm's length basis. Federal banking laws also place similar restrictions on certain extensions of credit by insured banks, such as the Bank, to their directors, executive officers and principal shareholders.

Reserves. Federal Reserve rules require depository institutions, such as the Bank, to maintain reserves against their transaction accounts, primarily interest bearing and non-interest bearing checking accounts. Effective March 26, 2020, reserve requirement ratios were reduced to zero percent. These reserve requirements are subject to annual adjustment by the Federal Reserve.

FDIC Insurance Assessments and Depositor Preference. The Bank's deposits are insured by the FDIC's DIF up to the limits under applicable law, which currently are set at $250,000 per depositor, per insured bank, for each account ownership category. The Bank is subject to FDIC assessments for its deposit insurance. The FDIC calculates quarterly deposit insurance assessments based on an institution's average total consolidated assets less its average tangible equity, and applies one of four risk categories determined by reference to its capital levels, supervisory ratings, and certain other factors. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits.

As of June 30, 2020, the DIF reserve ratio fell to 1.30%, below the statutory minimum of 1.35%. The FDIC, as required under the Federal Deposit Insurance Act, established a plan on September 15, 2020 to restore the DIF reserve ratio to meet or exceed the statutory minimum of 1.35% within eight years. On October 18, 2022, the FDIC adopted an amended restoration plan to increase the likelihood that the reserve ratio would be restored to at least 1.35 percent by September 30, 2028. The FDIC's amended restoration plan increases the initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning in the first quarterly assessment period of 2023. The FDIC could further increase the deposit insurance assessments for certain insured depository institutions, including the Bank, if the DIF reserve ratio is not restored as projected. In November 2023, the FDIC issued a final rule to implement a special assessment to recover losses to the DIF incurred as a result of recent bank failures and the FDIC's use of the systemic risk exception to cover certain deposits that were otherwise uninsured. The special assessment was based on estimated uninsured deposits as of December 31, 2022 (excluding the first $5.0 billion). The Company was exempt from this special assessment as our total uninsured deposits have never exceeded the stated threshold.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by a bank's federal regulatory agency. In addition, the Federal Deposit Insurance Act provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution, including those of the parent bank holding company.

Standards for Safety and Soundness. The Federal Deposit Insurance Act requires the federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (1) internal controls; (2) information systems and audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate risk exposure; and (6) asset quality. The federal banking agencies have adopted regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Anti-Money Laundering. A continued focus of governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing. The USA PATRIOT Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions such as broker-dealers, investment advisors and insurance companies, and strengthened the ability of the U.S. Government to help prevent, detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA PATRIOT Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. Failure of a financial institution to comply with the USA PATRIOT Act's requirements could have serious legal and reputational consequences for the institution. The Bank has augmented its systems and procedures to meet the requirements of these regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by law.

The Financial Crimes Enforcement Network of the U.S. Treasury Department ("FinCEN") has adopted rules that require financial institutions to obtain beneficial ownership information with respect to legal entities with which such institutions conduct business, subject to certain exclusions and exemptions. Bank regulators are focusing their examinations on anti-money laundering compliance, and we continue to monitor and augment, where necessary, our anti-money laundering compliance programs.

Banking regulators will consider compliance with the Act's money laundering provisions in acting upon acquisition and merger proposals. Bank regulators routinely examine institutions for compliance with these obligations and have been active in imposing cease and desist and other regulatory orders and money penalty sanctions against institutions found to be violating these obligations. Sanctions for violations of the Act can be imposed in an amount equal to twice the sum involved in the violating transaction, up to $1 million. On January 1, 2021, Congress passed federal legislation that made sweeping changes to federal anti-money laundering laws, subject to pending implementation by regulatory rulemaking. Most recently, on June 30, 2021, FinCEN published the first set of "national AML priorities," as required by the Bank Secrecy Act, which include, but are not limited to, cybercrime, terrorist financing, fraud, and drug/human trafficking. FinCEN is required to implement regulations to specify how covered financial institutions, such as the Company, should incorporate these national priorities into their AML programs. As of December 31, 2023, no such regulations have been proposed.

Economic Sanctions. The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

Concentrations in Lending. During 2006, the federal bank regulatory agencies released guidance on "Concentrations in Commercial Real Estate Lending" (the "Guidance") and advised financial institutions of the risks posed by commercial real estate ("CRE") lending concentrations. The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. Higher allowances for credit losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

- Total reported loans for construction, land development, and other land of 100% or more of a bank's total risk based capital; or

- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300% or more of a bank's total risk based capital.

The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type. We have always had exposures to loans secured by commercial real estate due to the nature of our markets and the loan needs of both retail and commercial customers. We believe our long term experience in CRE lending, underwriting policies, internal controls, and other policies currently in place, as well as our loan and credit monitoring and administration procedures, are generally appropriate to managing our concentrations as required under the Guidance.

Community Reinvestment Act. The Bank is subject to the provisions of the Community Reinvestment Act ("CRA"), which imposes a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of entire communities where the bank accepts deposits, including low- and moderate-income neighborhoods. The FDIC's assessment of the Bank's CRA record is made available to the public. Further, a less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities. Following the enactment of the Gramm-Leach-Bliley Act ("GLB"), CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation. The Bank has a rating of "Satisfactory" in its most recent CRA evaluation.

On October 24, 2023, the OCC, the FRB, and FDIC issued a final rule to modernize their respective CRA regulations. The revised rules substantially alter the methodology for assessing compliance with the CRA, with material aspects taking effect January 1, 2026 and revised data reporting requirements taking effect January 1, 2027. Among other things, the revised rules evaluate lending outside traditional assessment areas generated by the growth of non-branch delivery systems, such as online and mobile banking, apply a metrics-based benchmarking approach to assessment, and clarify eligible CRA activities. The final rules may make it more challenging and/or costly for the Bank to receive a rating of at least "satisfactory" on its CRA exam.

Privacy and Data Security. The GLB generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to customers annually. Financial institutions, however, will be required to comply with state law if it is more protective of consumer privacy than the GLB. The GLB also directed federal regulators, including the FDIC, to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying customers in the event of a security breach. Under federal law, the Bank must disclose its privacy policy to consumers, permit customers to opt out of having nonpublic customer information disclosed to third parties in certain circumstances, and allow customers to opt out of receiving marketing solicitations based on information about the customer received from another subsidiary. States may adopt more extensive privacy protections. We are similarly required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused. The federal banking agencies require banks to notify their regulators within 36 hours of a "computer-security incident" that rises to the level of a "notification incident."

Consumer Regulation. Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include, among numerous other things, provisions that:

- limit the interest and other charges collected or contracted for by the Bank, including new rules respecting the terms of credit cards and of debit card overdrafts;
- govern the Bank's disclosures of credit terms to consumer borrowers;
- require the Bank to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the community it serves;
- prohibit the Bank from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit;
- govern the manner in which the Bank may collect consumer debts; and
- prohibit unfair, deceptive or abusive acts or practices in the provision of consumer financial products and services.

Mortgage Regulation. The CFPB has issued rules to implement requirements of the Dodd-Frank Act pertaining to mortgage loan origination (including with respect to loan originator compensation and loan originator qualifications) as well as integrated mortgage disclosure rules. In addition, the CFPB has issued rules that require servicers to comply with new standards and practices with regard to: error correction; information disclosure; force-placement of insurance; information management policies and procedures; requiring information about mortgage loss mitigation options be provided to delinquent borrowers; providing delinquent borrowers access to servicer personnel with continuity of contact about the borrower's mortgage loan account; and evaluating borrowers' applications for available loss mitigation options. These rules also address initial rate adjustment notices for adjustable-rate mortgages (ARMs), periodic statements for residential mortgage loans, and prompt crediting of mortgage payments and response to requests for payoff amounts.

In 2020, the CARES Act granted certain forbearance rights and protection against foreclosure to borrowers with a "federally backed mortgage loan," including certain first or subordinate lien loans designed principally for the occupancy of one to four families. These consumer protections under the CARES Act continued during the COVID 19 pandemic emergency, and while most of these protections expired in 2022, on January 18, 2023, in its revised Mortgage Servicing Examination Procedures, the CFPB stated it expected servicers to continue to utilize these safeguards, regardless of their expiration.

Non-Discrimination Policies. The Bank is also subject to, among other things, the provisions of the Equal Credit Opportunity Act (the "ECOA") and the Fair Housing Act (the "FHA"), both of which prohibit discrimination based on race or color, religion, national origin, sex, and familial status in any aspect of a consumer or commercial credit or residential real estate transaction. The Department of Justice (the "DOJ"), and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending that provides guidance to financial institutions in determining whether discrimination exists, how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. The DOJ has increased its efforts to prosecute what it regards as violations of the ECOA and FHA.

LIBOR: On March 15, 2022, Congress enacted the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") to address references to LIBOR in contracts that (i) are governed by U.S. law; (ii) will not mature before June 30, 2023; and (iii) lack fallback provisions providing for a clearly defined and practicable replacement for LIBOR. On December 16, 2022, the FRB adopted a final rule to implement the LIBOR Act by identifying benchmark rates based on SOFR (Secured Overnight Financing Rate) that will replace LIBOR in certain financial contracts after June 30, 2023. The final rule identifies replacement benchmark rates based on SOFR to replace overnight, one-month, three-month, six-month, and 12-month LIBOR in contracts subject to the LIBOR Act. The Company had no loans with interest rates tied to LIBOR as of December 31, 2023.

Cybersecurity: The federal banking regulators regularly issue new guidance and standards, and update existing guidance and standards, regarding cybersecurity intended to enhance cyber risk management among financial institutions. Financial institutions are expected to comply with such guidance and standards and to accordingly develop appropriate security controls and risk management processes. If we fail to observe such regulatory guidance or standards, we could be subject to various regulatory sanctions, including financial penalties. In 2023, the SEC issued a final rule that requires disclosure of material cybersecurity incidents, as well as cybersecurity risk management, strategy and governance. Under this rule, banking organizations that are SEC registrants must generally disclose information about a material cybersecurity incident within four business days of determining it is material with periodic updates as to the status of the incident in subsequent filings as necessary.

Under a final rule adopted by federal banking agencies in 2021, banking organizations are required to notify their primary banking regulator within 36 hours of determining that a "computer-security incident" has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization's ability to carry out banking operations or deliver banking products and services to a material portion of its customer base, its businesses and operations that would result in material loss, or its operations that would impact the stability of the United States.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and many states, including Georgia, have also recently implemented or modified their data breach notification, information security and data privacy requirements. We expect this trend of state-level activity in those areas to continue and are continually monitoring developments in the states in which our customers are located.

Risks and exposures related to cybersecurity attacks, including litigation and enforcement risks, are expected to be elevated for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers.

See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity and Item 1C. Cybersecurity for a further discussion of risk management strategies and governance processes related to cybersecurity.

Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, you should carefully consider the risks described below, as well as the risk factors and uncertainties discussed in our other public filings with the SEC under the caption "Risk Factors" in evaluating us and our business and making or continuing an investment in our stock. Our operations and financial results are subject to various risks and uncertainties, including, but not limited to, the material risks described below. Many of these risks are beyond our control although efforts are made to manage those risks while simultaneously optimizing operational and financial results. The occurrence of any of the following risks, as well as risks of which we are currently unaware or currently deem immaterial, could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of the risks, uncertainties and assumptions that could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock.

In addition, certain statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements" beginning on page 3 of this Annual Report.

Risks Related to Our Business

A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Our business and operations are sensitive to general business and economic conditions in the United States, generally, and particularly in the states of Alabama, Florida, Georgia, New Jersey, New York, Texas and Virginia. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to borrower repayment ability and collateral protection as well as reduced demand for the products and services we offer. If the national, regional and local economies experience worsening economic conditions (including inflation), elevated levels of unemployment, adverse effects of the U.S. government's failure to raise its debt ceiling (including defaulting on its debt obligations or experiencing credit downgrades), fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, and lower home sales and commercial activity, our growth and profitability could be constrained.

We face strong competition from financial services companies and other companies that offer commercial and retail banking services, which could harm our business.

Many of our competitors offer the same, or a wider variety of, the banking and related financial services we offer within our market areas. These competitors include national banks, regional banks and other community banks, including banks similar to us that primarily serve distinct or multi-ethnic communities. In many instances these national and regional banks have greater resources than we do, and the smaller community banks may have stronger ties in local markets than we do, which may put us at a competitive disadvantage. We also face competition from many other types of financial institutions, including fintech companies, savings associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in our market areas. We also compete with many forms of payments offered by both bank and non-bank providers, including a variety of new and evolving alternative payment mechanisms, systems and products, such as aggregators and web-based and wireless payment platforms or technologies, digital or "crypto" currencies, prepaid systems and payment services targeting users of social networks, communications platforms and online gaming. Our future success may depend, in part, on our ability to use technology competitively to offer products and services that provide convenience to customers and create additional efficiencies in our operations.

Increased competition in our markets may result in reduced loans, deposits and commissions and brokers' fees, gains on sales, servicing fees, as well as reduced net interest margin and profitability. If we are unable to attract and retain banking and mortgage loan customers and expand our sales market for such loans, we may be unable to continue to grow our business, and our financial condition and results of operations may be adversely affected.

Fluctuations in interest rates have impacted net interest income and may otherwise negatively impact our financial condition and results of operations.

Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference, or spread, between interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings and other interest-bearing liabilities. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities fluctuates. This may cause decreases in our spread and may adversely affect our earnings and financial condition.

Interest rates are highly sensitive to many factors including, without limitation: the rate of inflation; economic conditions; federal monetary policies; and stability of domestic and foreign markets. Interest rates increased significantly in 2022 and 2023 as the Federal Reserve attempted to slow economic growth and counteract rising inflation. Further changes in interest rates and monetary policy reportedly are dependent upon the Federal Reserve's assessment of economic data as it becomes available. Increasing interest rates can have a negative impact on our business by reducing the amount of money our customers borrow or by adversely affecting their ability to repay outstanding loan balances that may increase due to adjustments in their variable rates which may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. In addition, in a rising interest rate environment we may have to offer more attractive interest rates to depositors to compete for deposits, or pursue other sources of liquidity, such as wholesale funds. Higher income volatility from changes in interest rates and spreads to benchmark indices could result in a decrease in net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates impacts both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition. Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful as some of these effects are outside of our control. A prolonged period of volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies.

Inflation could negatively impact our business, our profitability and our stock price.

Inflation over the past two years were at levels not seen for over 40 years. Prolonged periods of inflation may impact our profitability by negatively impacting our fixed costs and expenses, including increasing funding costs and expense related to talent acquisition and retention, and negatively impacting the demand for our products and services. Additionally, inflation may lead to a decrease in consumer and clients purchasing power and negatively affect the need or demand for our products and services. If significant inflation continues, our business could be negatively affected by, among other things, increased default rates leading to credit losses which could decrease our appetite for new credit extensions. These inflationary pressures could result in missed earnings and budgetary projections causing our stock price to suffer.

Negative developments in the banking industry could adversely affect our current and projected business operations and our financial condition and results of operations.

The bank failures in 2023 and related negative media attention have generated significant market trading volatility among publicly traded bank holding companies and, in particular, regional banks like the Company. These developments have negatively impacted customer confidence in regional banks, which could prompt customers to maintain their deposits with larger financial institutions. Further, competition for deposits has increased in recent periods, and the cost of funding has similarly increased, putting pressure on our net interest margin. If we were required to sell a portion of our securities portfolio to address liquidity needs, we may incur losses, including as a result of the negative impact of rising interest rates on the value of our securities portfolio, which could negatively affect our earnings and our capital. If we were required to raise additional capital in the current environment, any such capital raise may be on unfavorable terms, thereby negatively impacting book value and profitability. While we have taken actions to improve our funding, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs.

We also anticipate increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks of similar size to the Bank, designed to address the negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, losses embedded in the held-to-maturity portion of our securities portfolio, contingent liquidity, CRE composition and concentration, capital position and our general oversight and internal control structures regarding the foregoing. As primarily a commercial bank, the Bank has an elevated degree of uninsured deposits compared to larger national banks or smaller community banks with a stronger focus on retail deposits, and also maintains a robust CRE portfolio. As a result, the Bank could face increased scrutiny or be viewed as higher risk by regulators and the investor community. In addition, bank failures have and could in the future prompt the FDIC to increase deposit insurance costs. Increases in funding, deposit insurance, or other costs as a result of these types of events have and could in the future materially adversely affect our financial condition and results of operations. Further, the disruption following these types of events have and could in the future generate significant market trading volatility among publicly traded bank holdings companies and, in particular, regional banks like the Company.

Our future success is largely dependent upon our ability to successfully execute our business strategy.

Our future success, including our ability to achieve our growth and profitability goals, is dependent on the ability of our management team to execute on our long-term business strategy, which requires them to, among other things: maintain and enhance our reputation; attract and retain experienced and talented bankers in each of our markets; maintain adequate funding sources, including by continuing to attract stable, low-cost deposits; enhance our market penetration in our metropolitan markets and maintain our leadership position in our community markets; improve our operating efficiency; implement new technologies to enhance the client experience and keep pace with our competitors; attract and maintain commercial banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas; attract sufficient loans that meet prudent credit standards; originate residential mortgage loans for resale into secondary market to provide mortgage banking income; maintain adequate liquidity and regulatory capital and comply with applicable federal and state banking regulations; manage our credit, interest rate and liquidity risks; develop new, and grow our existing, streams of noninterest income; oversee the performance of third-party service providers that provide material services to our business; and control expenses in line with current projections.

Failure to achieve these strategic goals could adversely affect our ability to successfully implement our business strategies and could negatively impact our business, growth prospects, financial condition and results of operations. Further, if we do not manage our growth effectively, our business, financial condition, results of operations and future prospects could be negatively affected, and we may not be able to continue to implement our business strategy and successfully conduct our operations.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and through other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income. Moreover, competition among U.S. banks and non-banks for customer deposits is intense and may increase the cost of deposits (particularly in an elevated rate environment) or prevent new deposits and may otherwise negatively affect our ability to grow our deposit base. In addition, our access to deposits may be affected by the liquidity and/or cash flow needs of depositors, which may be exacerbated in an inflationary, recessionary, or elevated rate environment. This may cause our deposit accounts to decrease in the future, and any such decrease could have a material adverse impact on our sources of funding.

Other primary sources of funds consist of cash from operations, investment maturities and sales, sale of loans and proceeds from the issuance and sale of our equity securities to investors. Additional liquidity is provided by our ability to borrow from the Federal Reserve Bank of Atlanta and the Federal Home Loan Bank of Atlanta. Recently proposed change to the Federal Home Loan Bank system could adversely impact the Company's access to Federal Home Loan Bank borrowings or increase the cost of such borrowings. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in our primary market area or by one or more adverse regulatory actions against us. In addition, our access to deposits may be affected by the liquidity and/or cash flow needs of depositors, which may be exacerbated in an inflationary, recessionary, or elevated rate environment.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Our business depends on our ability to successfully manage our asset quality and credit risk.

We are subject to the risk of losses resulting from the failure of borrowers, guarantors and related parties to pay us the interest and principal amounts due on their loans. Although we maintain well-defined credit policies and credit underwriting and monitoring and collection procedures, these policies and procedures may not prevent losses, as some of these risks are outside of our control, particularly during periods in which the local, regional or national economy suffers a general decline. The future effects of the continued elevated inflationary and interest rate environment on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services, and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking certain remediation actions, such as foreclosure. If borrowers fail to repay their loans, our financial condition and results of operations would be adversely affected.

Because a significant portion of our loan portfolio is comprised of commercial and residential real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

At December 31, 2023, approximately 97.9% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect credit quality, profitability, financial condition, and results of operations. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may also require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

The residential mortgage loans that we originate consist primarily of non-conforming residential mortgage loans which may be considered less liquid and riskier.

The residential mortgage loans that we originate consist primarily of non-conforming residential mortgage loans, which are typically considered to have a higher degree of risk and are less liquid than conforming residential mortgage loans. We attempt to address this enhanced risk through our underwriting process, including requiring larger down payments and, in some cases, six months principal, interest, taxes and insurance reserves for individuals with no credit score.

Small Business Administration lending is an important part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

Our SBA lending program is dependent upon the U.S. federal government. As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans more efficiently. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress or funding for the SBA program may also have a material adverse effect on our business. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could materially and adversely affect our business, results of operations and financial condition.

The SBA's 7(a) Loan Program is the SBA's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes. Typically, we sell the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7(a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could materially and adversely affect our business, financial condition or results of operations.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

The non-guaranteed portion of SBA loans that we retain on our balance sheet, as well as the guaranteed portion of SBA loans that we sell, could expose us to various credit and default risks.

We generally retain the non-guaranteed portions of the SBA loans that we originate. The non-guaranteed portion of SBA loans have a higher degree of credit risk and risk of loss as compared to the guaranteed portion of such loans. When we sell the guaranteed portion of SBA loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the SBA loans and the manner in which they were originated. Under these agreements, we may be required to repurchase the guaranteed portion of the SBA loan if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolio, our liquidity, results of operations and financial condition could be adversely affected.

We may not be able to meet our unfunded credit commitments, or adequately reserve for losses associated with our unfunded credit commitments.

A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established under the agreement. The actual borrowing needs of our customers under these credit commitments have historically been lower than the contractual amount of the commitments. A significant portion of these commitments expire without being drawn upon. Because of the credit profile of our customers, we typically have a substantial amount of total unfunded credit commitments, which is not reflected on our balance sheet. Actual borrowing needs of our customers may exceed our expected funding requirements, especially during a challenging economic environment when our client companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, the increasing costs of credit, or the limited availability of financings from other sources. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our customers may have a material adverse effect on our business, financial condition, results of operations or reputation.

We use brokered deposits which may be an unstable and/or expensive deposit source to fund earning asset growth.

We use brokered deposits, as a source of funding to support our asset growth and augment deposits generated from our branch network, which are our principal source of funding. We have established policies and procedures with respect to the use of brokered deposits, which require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total assets, and (ii) our asset liability committee monitors our use of brokered deposits on a regular basis, including interest rates and the total volume of such deposits in relation to our total assets. In the event that our funding strategies call for the use of brokered deposits, there can be no assurance that such sources will be available, or will remain available, or that the cost of such funding sources will be reasonable. Additionally, if the Bank is no longer considered well-capitalized, our ability to access new brokered deposits or retain existing brokered deposits could be affected by market conditions, regulatory requirements or a combination thereof, which could result in most, if not all, brokered deposit sources being unavailable. The inability to utilize brokered deposits as a source of funding could have an adverse effect on our financial position, results of operations and liquidity.

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects.

Our success depends, in large part, on our ability to attract and retain key personnel. Competition for the best personnel in most activities we engage in can be intense, as we compete with both smaller banks that may be able to offer bankers with more responsibility and autonomy and larger banks that may be able to offer bankers with higher compensation, resources and support, and we may not be able to hire personnel or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, relationships in the communities we serve, years of industry experience and the difficulty of promptly finding qualified replacement personnel. Although we have employment agreements with certain of our executive officers, there is no guarantee that these officers and other key personnel will remain employed with the Company.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or OREO, thereby adversely affecting our net interest income, net income and returns on assets and equity, and our loan administration costs increase, which together with reduced interest income adversely affects our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and OREO also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which would have an adverse effect on our net income and related ratios, such as return on assets and equity.

Our provision and allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We make various assumptions and judgments about the collectability of our loan and lease portfolio and utilize these assumptions and judgments when determining the provision and allowance for credit losses. The determination of the appropriate level of the provision for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes, as we have experienced. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors both within and outside of our control, may require an increase in the amount reserved in the allowance for credit losses. In addition, bank regulatory agencies periodically review our provision and the total allowance for credit losses and may require an increase in the allowance for credit losses or future provisions for credit losses, based on judgments different than those of management. Any increases in the provision or allowance for credit losses will result in a decrease in our net income and, potentially, capital, and may have a material adverse effect on our financial condition or results of operations.

Decreased residential mortgage origination, volume and pricing decisions of competitors may adversely affect our profitability.

Our mortgage operation originates and sells residential mortgage loans and services residential mortgage loans. Changes in interest rates, housing prices, financial stress on borrowers as a result of economic conditions, regulations by the applicable governmental authorities and pricing decisions by our loan competitors may adversely affect demand for our residential mortgage loan products, the revenue realized on the sale of loans, revenues received from servicing such loans for others, and ultimately reduce our net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which we would utilize to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

Changes in interest rates may negatively affect both the returns on and market value of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, and other factors beyond our control. These changes can negatively impact our other comprehensive income and equity levels through accumulated other comprehensive income, which includes net unrealized gains and losses on our investment securities. Further, such losses could be realized into earnings should liquidity and/or business strategy necessitate the sales of securities in a loss position. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions. These occurrences could have a material adverse effect on our net interest income or our results of operations.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement or may acquire new lines of business or offer new products and services within existing lines of business. In developing and marketing new lines of business and new products and services we may invest significant time and resources. We may not achieve target timetables for the introduction and development of new lines of business and new products or services and price and profitability goals may not prove feasible. External factors, such as regulatory compliance obligations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

We focus on marketing our services to a limited segment of the population and any adverse change impacting such segment is likely to have an adverse impact on us.

Our marketing focuses primarily on the banking needs of small- and medium-sized businesses, professionals and residents in the markets that we serve, primarily communities with large Asian-American populations. This demographic concentration makes us more prone to circumstances that particularly affect this segment of the population. As a result, our financial condition and results of operations are subject to changes in the economic conditions affecting these communities. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these communities. Although our customers' business and financial interests may extend well beyond these communities, adverse economic conditions that affect these communities could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than regional or national financial institutions to diversify our credit risks across multiple markets. In addition, larger institutions with similar focuses are targeting our market areas. As we grow, we face entrenched multi-ethnic-oriented banks with larger resources in our new markets.

The costs and effects of litigation, investigations or similar matters, or adverse facts and developments related thereto, could materially affect our business, operating results and financial condition.

We may be involved from time to time in a variety of litigation, investigations or similar matters arising out of our business. It is inherently difficult to assess the outcome of these matters, and we may not prevail in any proceedings or litigation. Our insurance may not cover all claims that may be asserted against us and indemnification rights to which we are entitled may not be honored, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage or to the extent that we incur civil money penalties that are not covered by insurance, they could have a material adverse effect on our business, financial condition and results of operations. In addition, premiums for insurance covering the financial and banking sectors are rising. We may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms or at historic rates, if at all.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our common stock.

We are a community bank, and our reputation is one of the most valuable components of our business. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, security breaches, litigation, investigations and other preceedings, and questionable or fraudulent activities of our customers. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our common stock may be materially adversely affected.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, operational, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is continually undergoing rapid technological changes with frequent introductions of new technology-driven products and services (including those related to or involving artificial intelligence, machine learning, blockchain and other distributed ledger technologies), and an established and growing demand for mobile and other phone and computer banking applications. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or more convenient products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, and even if we implement such products and services, we may incur substantial costs in doing so. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business, financial condition and results of operations.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to hardware and cyber security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure, natural disasters such as earthquakes, tornadoes and hurricanes, or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third-party vendors and cyber criminals. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our internet banking activities, against damage from physical break-ins, cyber security breaches and other disruptive problems caused by the internet or other users. Such computer break-ins, breaches and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, reputational damage and inhibit the use of our internet banking services by current and potential customers, any of which may result in a material adverse impact on our financial condition, results of operations or the market price of our common stock. As cyber threats continue to evolve and become more frequent, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

We and our third-party vendors are under continuous threat of loss due to hacking and cyberattacks especially as we continue to expand client capabilities to utilize internet and other remote channels to transact business. These cyber risks include greater phishing, malware, and other cybersecurity attacks, vulnerability to disruptions of our and our third-party vendors' information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, greater risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations and the operations of any impacted customers.

To date, none of foregoing types of attacks have had a material effect on our business or operations and we maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. However, no assurances can be provided that we (or our third-party vendors) may not suffer from such an attack in the future that may cause us material harm, especially in light of the risks being posed by changing technologies as well as criminal intent on committing cyber-crime.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting, deposit processing and other processing services from third-party service providers. If these third-party service providers experience financial, operational, or technological difficulties or terminate their services and we are unable to replace them with other suitable service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace our service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information provided by customers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to extend credit or to enter into other transactions with customers and counterparties, we rely on information furnished to us by or on behalf of such customers and counterparties, including financial statements and other financial information. We also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Such information could turn out to be inaccurate, including as a result of fraud on behalf of our customers, counterparties or other third parties. In times of increased economic stress, we are at an increased risk of fraud losses. We cannot make assurances that our underwriting and operational controls will prevent or detect such fraud or that we will not experience fraud losses or incur costs or other damages related to such fraud. Our customers may also experience fraud in their businesses which could adversely affect their ability to repay their loans or make use of our services. Our exposure and the exposure of our customers to fraud may increase our financial risk and reputation risk as it may result in unexpected credit losses that exceed those that have been provided for in our allowance for credit losses. Reliance on inaccurate or misleading information from our customers, counterparties and other third parties, including as a result of fraud, could have a material adverse impact on our business, financial condition and results of operations.

Our accounting estimates and risk management processes rely on analytical and forecasting models.

Processes that management uses to estimate our current expected credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and/or forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation.

If the models that management uses for interest rate risk and asset liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models that management uses for determining our expected credit losses are inadequate, the ACL may not be sufficient to support future charge offs. If the models that management uses to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in management’s analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

Changes in accounting standards could materially impact our financial statements.

From time to time, the FASB or the Securities and Exchange Commission, or SEC, may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

Management regularly monitors, reviews and updates our disclosure controls and procedures, including our internal control over financial reporting. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the controls will be effective. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition. Failure to achieve and maintain an effective internal control environment could prevent us from accurately reporting our financial results, preventing or detecting fraud or providing timely and reliable financial information pursuant to our reporting obligations, which could result in a material weakness in our internal controls over financial reporting and the restatement of previously filed financial statements and could have a material adverse effect on our business, financial condition and results of operations. Further, ineffective internal controls could cause our investors to lose confidence in our financial information, which could affect the trading price of our common stock.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional customers. Many of these transactions expose us to credit risk in the event of default of our counterparty or customer. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

Risks Related to Legislative and Regulatory Events

We are subject to extensive government regulation that could limit or restrict our activities, which in turn may adversely impact our ability to increase our assets and earnings.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the DBF and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan, such as expansion through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions. Negative developments in the financial industry and the impact of new legislation and regulation in response to those developments could negatively impact our business operations and adversely impact our financial performance. See the discussion above at *Supervision and Regulation* for an additional discussion of the extensive regulation and supervision that the Company and the Bank are subject to.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the DBF periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity, interest rate sensitivity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

Changes to monetary policy by the Federal Reserve could adversely impact our results of operations.

The Federal Reserve is responsible for regulating the supply of money in the United States, including open market operations used to stabilize prices in times of economic stress, as well as setting monetary policies. These activities strongly influence our rate of return on certain investments, our hedge effectiveness for mortgage servicing and our mortgage origination pipeline, as well as our costs of funds for lending and investing, all of which may adversely impact our liquidity, results of operations, financial condition and capital position. The Company cannot predict the nature or timing of future changes in monetary, economic, or other policies or the effect that they may have on the Company's business activities, financial condition and results of operations.

We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

The Federal Reserve may require us to commit capital resources to support the Bank.

The Federal Reserve, which examines us and the Bank, requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, The Bank is subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which the Bank must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If the Bank fails to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. We may also be required to satisfy additional capital adequacy standards as determined by the Federal Reserve. These requirements, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations.

We could face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. FinCEN, established by the U.S. Department of the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and engages in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by OFAC related to U.S. sanctions regimes. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities or otherwise negatively impact our operations.

Risks Related to Our Common Stock

The Company's directors may have interests that differ from other shareholders, and such directors have ownership interests in the Company that, when aggregated with holdings of their extended families and their affiliated entities, may allow such individuals and entities to take certain corporate actions without the consent of other shareholders.

As of December 31, 2023, our directors and their families and affiliated entities collectively had a 31.9% ownership interest in the Company. As a result, our directors may have significant influence over the election of board of directors, control the management and policies of the Company and, in general, determine the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the assets of the Company, and will be able to prevent or cause a change in control of the Company.

An investment in our common stock is not an insured deposit and may lose value.

Securities that we issue, including our common stock, are not savings or deposit accounts or other obligations of any bank, insured by the FDIC, any other governmental agency or instrumentality, or any private insurer, and are subject to investment risk, including the possible loss of our shareholders' investments. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

ESG risks could adversely affect our reputation and shareholder, employee, client and third party relationships and may negatively affect our stock price.

Our business faces increasing public scrutiny related to environmental, social and governance ("ESG") activities. We risk damage to our brand and reputation if we fail to act responsibly in a number of areas, such as diversity, equity, inclusion, environmental stewardship, human capital management, support for our local communities, corporate governance and transparency, or fail to consider ESG factors in our business operations.

Furthermore, as a result of our diverse base of clients and business partners, we may face potential negative publicity based on the identity of our clients or business partners and the public's (or certain segments of the public's) view of those entities. Such publicity may arise from traditional media sources or from social media and may increase rapidly in size and scope. If our client or business partner relationships were to become intertwined in such negative publicity, our ability to attract and retain clients, business partners, and employees may be negatively impacted, and our stock price may also be negatively impacted. Additionally, we may face pressure to not do business in certain industries that are viewed as harmful to the environment or are otherwise negatively perceived, which could impact our growth.

Additionally, investors and shareholder advocates are placing ever increasing emphasis on how corporations address ESG issues in their business strategy when making investment decisions and when developing their investment theses and proxy recommendations. We may incur meaningful costs with respect to our ESG efforts and if such efforts are negatively perceived, our reputation and stock price may suffer. In addition, ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs.

Our dividend policy may change, and consequently, your only opportunity to achieve a return on your investment may be if the price of our common stock appreciates.

We have paid quarterly dividends to our shareholders for the past nine years. We have no obligation to pay dividends and we may change our dividend policy at any time without notice to our shareholders. Holders of our common stock are only entitled to receive such cash dividends as our board of directors, in its discretion, may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability and requirements, projected liquidity needs, financial condition, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends paid to our shareholders.

We are a separate and distinct legal entity from our subsidiary, the Bank. We receive substantially all of our revenue from dividends from the Bank, which we use as the principal source of funds to pay our expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay us. Such limits are also tied to the earnings of our subsidiary. If the Bank does not receive regulatory approval or if the Bank's earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition or results of operations could be materially and adversely impacted.

We may need to raise additional capital in the future.

We are required to meet certain regulatory capital requirements and maintain sufficient liquidity. We are generally not restricted from issuing additional shares of our common stock up to the authorized number of shares set forth in our charter. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Accordingly, we may be unable to raise additional capital if needed or on terms acceptable to us. Further, such additional capital could result in dilution to our existing shareholders. If we or the Bank fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations, as well as our ability to maintain compliance with regulatory capital requirements, would be materially and adversely affected.

We have the ability to incur debt and pledge our assets, including our stock in the Bank, to secure that debt.

We have the ability to incur debt and pledge our assets to secure that debt. Absent special and unusual circumstances, a holder of indebtedness for borrowed money has rights that are superior to those of holders of common stock. For example, interest must be paid to the lender before dividends can be paid to the shareholders, and loans must be paid off before any assets can be distributed to shareholders if we were to liquidate. Furthermore, we would have to make principal and interest payments on our indebtedness, which could reduce our profitability or result in net losses on a consolidated basis even if the Bank were profitable.

We are an "emerging growth company," and the reduced regulatory and reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company," as described in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These include, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments. In addition, even if we comply with the greater obligations of public companies that are not emerging growth companies, we may avail ourselves of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as we are an emerging growth company. Our eligibility as an emerging growth company is expected to expire on December 31, 2024, which is the last day of the fisal year following the five year anniversary from the date of our initial public offering.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

Our risk management program is designed to identify, assess, and mitigate risks across various aspects of our company, including financial, operational, regulatory, reputational, and legal. Cybersecurity is a critical component of this program, given the increasing reliance on technology and potential of cyber threats. Our Information Security Officer is primarily responsible for the cybersecurity component of our risk management program and is a key member of the risk management organization, reporting directly to the Chief Executive Officer and, as discussed below, periodically to the Technology Committee of our board of directors.

Our objective for managing cybersecurity risk is to avoid or minimize the impacts of external threat events or other efforts to penetrate, disrupt or misuse our systems or information. The structure of our information security program is designed around the National Institute of Standards and Technology ("NIST") Cybersecurity Framework, regulatory guidance, and other industry standards. In addition, we leverage certain industry and government associations, third-party benchmarking, audits, and threat intelligence feeds to facilitate and promote program effectiveness. Our Information Security Officer, who reports directly to our Chief Executive Officer, along with key members of their team, regularly collaborate with peer banks, industry groups, and policymakers to discuss cybersecurity trends and issues and identify best practices. The information security program is periodically reviewed by such personnel with the goal of addressing changing threats and conditions.

We have established processes and systems designed to assess, identify, manage, and mitigate cybersecurity risk and threats, including regular and on-going education and training for employees, including information security awareness training, preparedness simulations and tabletop exercises, and recovery and resilience tests. We employ a variety of preventative and detective tools designed to monitor and block suspicious activity and to identify cybersecurity threats. We continue to strengthen the management and oversight of cybersecurity risks through new security system enhancements, policies, testing, identification and reporting. We engage in regular assessments of our infrastructure, software systems, and network architecture, using internal cybersecurity professionals and third-party specialists. We also engage a third-party to perform penetration testing and ongoing analysis to identifty potential vulnerabilities and areas for additional enhancement. We also maintain a third-party risk management program designed to identify, assess, and manage risks, including cybersecurity risks, associated with third-party service providers. We also monitor our email gateways for malicious phishing campaigns and monitor remote connections for cybersecurity threats. We leverage internal and external auditors and independent external partners to periodically review our processes, systems, and controls, including with respect to our information security program, to assess their design and operating effectiveness and make recommendations to strengthen our risk management program.

We maintain an Incident Response Plan that provides a documented framework for responding to actual or potential cybersecurity incidents, including timely notification of and escalation to senior management and the Technology Committee of our board of directors, as well as the full board of directors. The Incident Response Plan is coordinated through the Information Security Officer and key members of management are embedded into the Plan by its design. The Incident Response Plan facilitates coordination across multiple parts of our organization and is evaluated at least annually.

We have not experienced a cybersecurity incident or identified risks from known cybersecurity threats or prior cybersecurity incidents that has materially impacted our business strategy, results of operations, or financial condition. Despite our efforts, there can be no assurance that our cybersecurity risk management processes and measures described will be fully implemented, complied with, or effective in protecting our systems and information. We face risks from certain cybersecurity threats that, if realized, are reasonably likely to materially affect our business strategy, results of operations or financial condition. For further discussion of risks from cybersecurity threats, see the section captioned “System failures or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities” in Item 1A. Risk Factors.

Cybersecurity Governance

Our Information Security Officer directs our enterprise information security department and manages our information security program. The responsibilities of enterprise information security department include cybersecurity risk assessment and defense, vulnerability assessment, incidend prevention, mitigation, response, and remediation, data access governance, third-party risk management, and business resilience. Our Information Security Officer has over ten years of relevant expertise and formal training in the areas of information security and cybersecurity risk management in the financial institutions industry.

The Technology Committee of our board of directors has primary responsibility for overseeing our information security and technology programs, including management’s actions to identify, assess, mitigate, and remediate or prevent material cybersecurity issues and risks. Our Information Security Officer provides quarterly reports to the Technology Committee of our board of directors regarding the information security program and the technology program, key enterprise cybersecurity initiatives, and other matters relating to cybersecurity risks and incidents. The Technology Committee also reviews our cyber security risk profile on a quarterly basis. The Technology Committee, as well as the full board of directors, reviews and approves our information security and technology budgets and strategies annually. The Technology Committee provides a report of their activities to the full board of directors on a quarterly basis.

Item 2. Properties

The Company’s corporate headquarters and Metro City Bank’s main office is located at 5114 Buford Highway NE, Atlanta, GA 30340. Metro City Bank owns this property. We also currently operate 19 additional full service-branches, which are all leased, located in multi-ethnic communities in Alabama, Florida, Georgia, New York, New Jersey, Texas and Virginia. We believe that our banking offices are in good condition and are suitable and adequate to our needs.

Item 3. Legal Proceedings

We are subject to various legal actions that arise from time to time in the ordinary course of business. While the ultimate outcome of pending procedures cannot be predicted with certainty, at this time management does not expect that any such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated financial position or results of operations. However, one or more unfavorable outcomes in any legal action against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management’s attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Record

Our common stock is listed on the Nasdaq Global Select Market under the symbol "MCBS". Our common stock began trading on Nasdaq Global Select Market on October 3, 2019. Prior to that date, our common stock was traded on the OTCQX Market under the same symbol.

As of March 4, 2023, there were 25,205,506 shares of common stock outstanding held by approximately 175 shareholders of record of our common stock as reported by our transfer agent.

Dividends

It has been our policy to pay quarterly dividends to holders of our common stock. We have paid quarterly dividends to our shareholders in amounts up to 40% of our net income over the past ten years. We have no obligation to pay dividends and we may change our dividend policy at any time without notice to our shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, contractual restrictions and any other factors that our board of directors may deem relevant.

As a Georgia corporation, the Company is subject to certain restrictions on dividends under the Georgia Business Corporation Code. We are also subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. See "Item 1. Business - Regulation and Supervision - Regulation of the Company - Payment of Dividends."

Equity Compensation Plan Information

Please see Item 12 of this Annual Report for information with respect to shares of common stock that are authorized for issuance under the Company's equity compensation plans as of December 31, 2023.

Issuer Purchases of Equity Securities

On April 23, 2021, the Company announced that its Board of Directors approved a share repurchase program under which the Company may repurchase up to 1,000,000 shares of its common stock. The share repurchase program began on April 27, 2021 and ended on December 31, 2021.

On May 5, 2022, the Company announced that the Board of Directors of the Company approved the re-adoption of the share repurchase program authorizing the Company to repurchase up to 689,191 shares of the Company's outstanding shares of common stock. The share repurchase program began on May 6, 2022 and ended on January 9, 2023.

On September 5, 2023, the Company announced that the Board of Directors of the Company approved the adoption of a share repurchase program authorizing the Company to repurchase up to 1,000,000 shares of the Company's outstanding shares of common stock. The share repurchase program began on September 6, 2023 and will end on September 30, 2024.

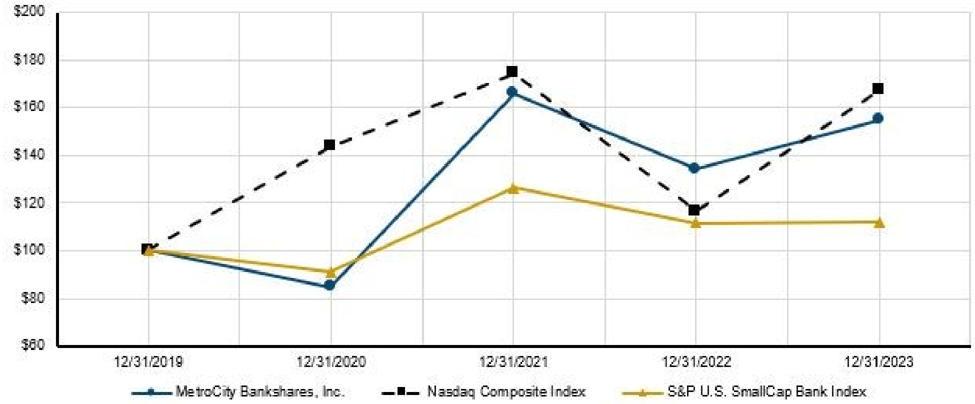
The repurchases are made in compliance with all SEC rules, including Rule 10b-18, and other legal requirements and may be made in part under Rule 10b5-1 plans, which permits share repurchases when the Company might otherwise be precluded from doing so. Repurchases can be made from time-to-time in the open market or through privately negotiated transactions depending on market and/or other conditions. The repurchase program may be modified, suspended or discontinued at any time.

The following table summarizes the repurchases of our common shares for the three months ended December 31, 2023.

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2023 to October 31, 2023	31,822	$ 19.76	31,822	929,489
November 1, 2023 to November 30, 2023	3,829	$ 19.99	3,829	925,660
December 1, 2023 to December 31, 2023	—	$ —	—	925,660
Total	35,651	$ 19.78	35,651	925,660

Stock Performance Graph

The following graph compares the cumulative total return on our common stock with the cumulative total return of the Nasdaq Composite Index and the S&P U.S. Small Cap Bank Index for the period beginning on December 31, 2019 through December 31, 2023. The following reflects index values as of close of trading, assumes $100.00 invested on December 31, 2019, in our common stock, the Nasdaq Composite Index and the S&P U.S. Small Cap Bank Index, and assumes the reinvestment of dividends, if any. The historical price of our common stock represented in this graph represents past performance and is not necessarily indicative of future performance.



Index	2019	2020	2021	2022	2023
MetroCity Bankshares, Inc.	$ 100.00	$ 84.82	$ 166.02	$ 134.07	$ 154.66
Nasdaq Composite Index	100.00	143.64	174.36	116.65	167.30
S&P U.S. Small Cap Bank Index	100.00	90.82	126.43	111.47	112.03

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors," and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected in the forward looking statements. We assume no obligation to update any of these forward-looking statements.

Overview

We are MetroCity Bankshares, Inc., a bank holding company headquartered in the Atlanta, Georgia metropolitan area. We operate through our wholly-owned banking subsidiary, Metro City Bank, a Georgia state-chartered commercial bank that was founded in 2006. We currently operate 20 full-service branch locations in multi-ethnic communities in Alabama, Florida, Georgia, New York, New Jersey, Texas and Virginia. We are focused on delivering full-service banking services in markets, predominantly Asian-American communities in growing metropolitan markets in the Eastern U.S. and Texas.

Prior to December 2014, we operated without a holding company, and in December 2014, the Bank formed MetroCity Bankshares, Inc. as its holding company. On December 31, 2014, MetroCity Bankshares, Inc. acquired all of the outstanding common stock of Metro City Bank as a part of the holding company formation transaction.

We are a bank holding company and we conduct all of our material business operations through the Bank. As a result, the discussion and analysis relates to activities primarily conducted at the Bank level.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America ("GAAP") and conform to general practices within the industry in which we operate. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statement. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical in understanding our financial statements.

The following is a discussion of the critical accounting policies and significant estimates that require us to make complex and subjective judgments. Additional information about these policies can be found in Note 1 of our consolidated financial statements as of December 31, 2023, included elsewhere in this Annual Report on Form 10-K.

Reserve for Credit Losses

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers.

The reserve for credit losses consists of the allowance for credit losses ("ACL") and the allowance for unfunded commitments. As a result of our January 1, 2023 adoption of ASU No. 2016-13, and its related amendments, our methodology for estimating the reserve for credit losses changed significantly from December 31, 2022. The standard replaced the "incurred loss" approach with an "expected loss" approach known as the Current Expected Credit Losses ("CECL"). The CECL approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It removes the incurred loss approach's threshold that delayed the recognition of a credit loss until it was "probable" a loss event was "incurred."

The estimate of expected credit losses under the CECL approach is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. We then consider whether the historical loss experience should be adjusted for loan-specific risk characteristics or current conditions at the reporting date that did not exist over the period from which historical experience was used. Finally, we consider forecasts about future economic conditions that are reasonable and supportable. The allowance for unfunded commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit. This allowance is estimated by loan segment at each balance sheet date under the CECL model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur.

Management's evaluation of the appropriateness of the reserve for credit losses is often the most critical of accounting estimates for a financial institution. Our determination of the amount of the reserve for credit losses is a critical accounting estimate as it requires the use of estimates and significant judgment as to the amount and timing of expected future cash flows, reliance on historical loss rates on homogenous portfolios, consideration of our quantitative and qualitative evaluation of economic factors, and the reliance on our reasonable and supportable forecasts. The reserve for credit losses attributable to each portfolio segment also includes an amount for inherent risks not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), changes in underwriting standards, changes in collateral values, experience and depth of lending staff, trends in delinquencies, and the volume and terms of loans.

See Note 1 and Note 3 of our consolidated financial statements as of December 31, 2023, included elsewhere in this Annual Report on Form 10-K, for additional information on the reserve and allowance for credit losses.

Recent Industry Developments

During the first half of 2023, the banking industry experienced significant volatility with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, uninsured deposit concentrations, unrealized securities losses and eroding consumer confidence in the banking system. Despite these negative industry developments, the Company's liquidity position and balance sheet remains robust. The Company's total deposits increased by 2.4% from December 31, 2022 to $2.73 billion at December 31, 2023. The Company's uninsured deposits represented 26.5% of total deposits at December 31, 2023 compared to 32.5% of total deposits at December 31, 2022. The Company also took a number of preemptive actions, which included proactive outreach to clients and actions to maximize its funding sources in response to these recent developments. Furthermore, the Company's capital remains strong with common equity Tier 1 and total capital ratios of 16.73% and 17.60 %, respectively, as of December 31, 2023.

Results of Operations

Net Income

Year ended December 31, 2023 compared to year ended December 31, 2022

We recorded net income of $51.6 million for the year ended December 31, 2023 compared to $62.6 million for the year ended December 31, 2022, a decrease of $11.0 million, or 17.6%. The decrease was due to a $18.1 million decrease in net interest income and a $2.8 million increase in provision for credit losses, offset by a $8.3 million decrease in provision for income taxes, a $1.6 million decrease in noninterest expense and an $86,000 increase noninterest income.

Basic and diluted earnings per common share for the year ended December 31, 2023 was $2.05 and $2.02, respectively, compared to $2.46 and $2.44 for the basic and diluted earnings per common share for the year ended December 31, 2022.

Year ended December 31, 2022 compared to year ended December 31, 2021

We recorded net income of $62.6 million for the year ended December 31, 2022 compared to $61.7 million for the year ended December 31, 2021, an increase of $901,000, or 1.5%. The increase was due to a $15.4 million increase in net interest income and a $9.7 decrease in provision for credit losses, offset by a $14.6 million decrease in noninterest income, a $1.9 million increase in noninterest expense and a $7.7 million increase in provision for income taxes.

Basic and diluted earnings per common share for the year ended December 31, 2022 was $2.46 and $2.44, respectively, compared to $2.41 and $2.39 for the basic and diluted earnings per common share for the year ended December 31, 2021.

Net Interest Income

The management of interest income and expense is fundamental to our financial performance. Net interest income, the difference between interest income and interest expense, is the largest component of the Company's total revenue. Management closely monitors both total net interest income and the net interest margin (net interest income divided by average earning assets). We seek to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities.

Year ended December 31, 2023 compared to year ended December 31, 2022

Net interest income for the year ended December 31, 2023 was $101.5 million compared to $119.6 million for the year ended December 31, 2022, a decrease of $18.1 million, or 15.2%. Interest income totaled $192.8 million for the year ended December 31, 2023, an increase of $45.6 million, or 31.0%, from the year ended December 31, 2022, primarily due to an 82 basis points increase in the yield on average loans coupled with a $274.3 million increase in average loans. Average earning assets increased by $213.3 million, primarily due to an increase of $274.3 million in average loans, offset by a decrease of $61.0 million in average investment securities, fed funds sold and interest-bearing cash accounts. The increase in average loans included increases of $208.9 million in average residential real estate loans and $70.4 million in average commercial real estate loans, offset by decreases of $3.6 million in average construction and development loans and $1.4 million in average commercial and industrial loans.

Interest expense for the year ended December 31, 2023 increased $63.7 million, or 230.9%, to $91.3 million compared to interest expense of $27.6 million for the year ended December 31, 2022. This increase is primarily attributable to a $263.4 million increase in average deposit balances and a 256 basis points increase in deposit costs, which includes a 279 basis points increase in the average yield on money market deposits and an 258 basis points increase in the average yield on time deposits. Average borrowings outstanding for the year ended December 31, 2023 decreased by $20.1 million with an increase in rate of 195 basis points compared to the year ended December 31, 2022.

The Company currently has interest rate derivative agreements totaling $850.0 million that are designated as cash flow hedges of our deposit accounts indexed to the Federal Funds Effective rate. The weighted average pay rate for these interest rate derivatives is 2.29%. During the year ended December 31, 2023, we recorded a credit to interest expense of $5.4 million from the benefit received on these interest rate derivatives compared to $287,000 of interest expense recorded during the year ended December 31, 2022. Of the $850.0 million interest rate derivatives, only $500.0 million were making payments as of December 31, 2023 and the remaining $350.0 million will begin making payments in the second quarter of 2024. Based on the Federal Funds Effective rate as of December 31, 2023 (5.33%), the Company would estimate to record a credit to interest expense of $22.9 million during 2024 from the benefit received on these interest rate derivatives. See Note 10 of our consolidated financial statements as of December 31, 2023, included elsewhere in this Annual Report on Form 10-K, for additional information on these interest rate derivatives.

The net interest margin for the year ended December 31, 2023 was 3.13% compared to 3.95% for the year ended December 31, 2022, a decrease of 82 basis points. The cost of interest-bearing liabilities increased by 248 basis points to 3.73% from 1.25%, while the yield on interest-earning assets increased by 108 basis points to 5.94% from 4.86% for the previous year. Average earning assets increased by $213.3 million, primarily due to an increase of $274.3 million in average loans, offset by a decrease of $61.0 million in average total investments. Average interest-bearing liabilities increased by $243.4 million as average interest-bearing deposits increased by $263.4 million while average borrowings decreased by $20.1 million.

Year ended December 31, 2022 compared to year ended December 31, 2021

Net interest income for the year ended December 31, 2022 was $119.6 million compared to $104.2 million for the year ended December 31, 2021, an increase of $15.4 million, or 14.8%. Interest income totaled $147.2 million for the year ended December 31, 2022, an increase of $38.5 million, or 35.4%, from the year ended December 31, 2021, primarily due to a $661.4 million increase in average loans while the yield on average loans increased by four basis points. We recognized Paycheck Protection Program ("PPP") loan fee income of $1.0 million during 2022 compared to PPP loan fee income of $5.4 million during 2021. Average earning assets increased by $692.4 million, primarily due to an increase of $661.4 million in average loans and $31.0 million in average investment securities, fed funds sold and interest-bearing cash accounts. The increase in average loans included increases of $653.0 million in average residential real estate loans and $85.0 million in average commercial real estate loans, offset by decreases of $12.5 million in average construction and development loans and $64.1 million in average commercial and industrial loans.

Interest expense for the year ended December 31, 2022 increased $23.0 million to $27.6 million compared to interest expense of $4.6 million for the year ended December 31, 2021. This increase is primarily attributable to a $491.3 million increase in average interest-bearing deposits and a 100 basis points increase in deposit costs, which includes a 119 basis points increase in the average yield on money market deposits and an 84 basis points decrease in the average yield on time deposits. Average borrowings outstanding for the year ended December 31, 2022 increased by $150.2 million with an increase in rate of 81 basis points compared to the year ended December 31, 2021.

The net interest margin for the year ended December 31, 2022 was 3.95% compared to 4.45% for the year ended December 31, 2021, a decrease of 50 basis points. The cost of interest-bearing liabilities increased by 96 basis points to 1.25% from 0.29%, while the yield on interest-earning assets increased by 21 basis points to 4.86% from 4.65% for the previous year. Average earning assets increased by $692.4 million, primarily due to an increase of $661.4 million in average loans and an increase of $31.0 million in average total investments. Average interest-bearing liabilities increased by $641.5 million as average interest-bearing deposits increased by $491.3 million and average borrowings increased by $150.2 million.

Average Balances, Interest and Yields

The following tables present, for the years ended December 31, 2023, 2021 and 2021, information about: (i) weighted average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin.

	Year Ended December 31,								
	2023			2022			2021		
(Dollars in thousands)	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate
Earning Assets:									
Federal funds sold and other investments[1]	$ 167,024	$ 9,995	5.98 %	$ 225,154	$ 3,524	1.57 %	$ 207,771	$ 500	0.24 %
Investment securities	32,330	949	2.94	35,188	881	2.50	21,573	390	1.81
Total investments	199,354	10,944	5.49	260,342	4,405	1.69	229,344	890	0.39
Construction and development	31,955	1,864	5.83	35,562	1,898	5.34	48,076	2,513	5.23
Commercial real estate	659,432	57,710	8.75	589,017	38,582	6.55	503,968	29,750	5.90
Commercial and industrial	54,100	5,110	9.45	55,516	3,920	7.06	119,640	8,407	7.03
Residential real estate	2,299,246	117,071	5.09	2,090,389	98,277	4.70	1,437,377	67,058	4.67
Consumer and Other	195	128	65.64	193	138	71.50	188	123	65.43
Gross loans[2]	3,044,928	181,883	5.97	2,770,677	142,815	5.15	2,109,249	107,851	5.11
Total earning assets	3,244,282	192,827	5.94	3,031,019	147,220	4.86	2,338,593	108,741	4.65
Noninterest-earning assets	198,938			156,185			122,038		
Total assets	3,443,220			3,187,204			2,460,631		
Interest-bearing liabilities:									
NOW and savings deposits	146,543	2,264	1.54	186,061	1,046	0.56	112,943	222	0.20
Money market deposits	1,006,360	42,347	4.21	1,130,439	16,067	1.42	726,268	1,693	0.23
Time deposits	940,911	35,996	3.83	513,867	6,445	1.25	499,856	2,033	0.41
Total interest-bearing deposits	2,093,814	80,607	3.85	1,830,367	23,558	1.29	1,339,067	3,948	0.29
Borrowings	353,149	10,741	3.04	373,238	4,051	1.09	223,027	624	0.28
Total interest-bearing liabilities	2,446,963	91,348	3.73	2,203,605	27,609	1.25	1,562,094	4,572	0.29
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	555,840			599,340			559,797		
Other noninterest-bearing liabilities	74,254			63,997			76,727		
Total noninterest-bearing liabilities	630,094			663,337			636,524		
Shareholders' equity	366,163			320,262			262,013		
Total liabilities and shareholders' equity	$ 3,443,220			$ 3,187,204			$ 2,460,631		
Net interest income		$ 101,479			$ 119,611			$ 104,169	
Net interest spread			2.21			3.61			4.36
Net interest margin			3.13			3.95			4.45

(1) Includes income and average balances for term federal funds, interest-earning cash accounts, and other miscellaneous earning assets.
(2) Average loan balances include nonaccrual loans and loans held for sale.

Rate/Volume Analysis

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 table sets forth the effects of changing rates and volumes on our net interest income during the period shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Change applicable to both volumes and rate have been allocated to volume.

	Year Ended December 31,					
	2023 Compared to 2022 Increase (Decrease) Due to Change in:			2022 Compared to 2021 Increase (Decrease) Due to Change in:		
(Dollars in thousands)	Volume	Yield/Rate	Total Change	Volume	Yield/Rate	Total Change
Earning assets:						
Federal funds sold and other investments[1]	$ (376)	$ 6,847	$ 6,471	$ 458	$ 2,586	$ 3,044
Investment securities	(581)	649	68	505	(34)	471
Total investments	(957)	7,496	6,539	963	2,552	3,515
Construction and development	(230)	196	(34)	(685)	70	(615)
Commercial real estate	4,979	14,149	19,128	5,030	3,802	8,832
Commercial and industrial	(115)	1,305	1,190	(4,667)	180	(4,487)
Residential real estate	10,161	8,633	18,794	30,875	344	31,219
Consumer and Other	(7)	(3)	(10)	7	8	15
Gross loans[2]	14,788	24,280	39,068	30,560	4,404	34,964
Total earning assets	13,831	31,776	45,607	31,523	6,956	38,479
Interest-bearing liabilities:						
NOW and savings deposits	(280)	1,498	1,218	197	627	824
Money market deposits	(1,893)	28,173	26,280	1,817	12,557	14,374
Time deposits	10,323	19,228	29,551	490	3,922	4,412
Total interest-bearing deposits	8,150	48,899	57,049	2,504	17,106	19,610
Borrowings	(219)	6,909	6,690	662	2,765	3,427
Total interest-bearing liabilities	7,931	55,808	63,739	3,166	19,871	23,037
Net interest income	$ 5,900	$ (24,032)	$ (18,132)	$ 28,357	$ (12,915)	$ 15,442

(1) Includes income and average balances for term federal funds, interest-earning cash accounts, and other miscellaneous earning assets.
(2) Loan balances include nonaccrual loans and loans held for sale.

Provision for Credit Losses

The provision for credit losses reflects our internal calculation and judgment of the appropriate amount of the allowance for credit losses. The adoption of ASU No. 2016-13, *"Measurement of Credit Losses on Financial Instruments"* or "CECL" has significantly changed the methodology of how we measure credit losses (see Note 1 to the Consolidated Financial Statements for more information). We maintain the allowance for credit losses at levels we believe are appropriate to cover our estimate of expected credit losses over the life of loans in the portfolio as of the end of the reporting period. The allowance for credit losses is determined through detailed quarterly analyses of our loan portfolio. The allowance for credit losses is based on our loss experience, changes in the economic environment, reasonable and supportable forecasts, as well as an ongoing assessment of credit quality and environmental factors not reflective in historical loss rates. Additional qualitative factors that are considered in determining the amount of the allowance for credit losses are concentrations of credit risk (geographic, large borrower, and industry), changes in underwriting standards, changes in collateral value, experience and depth of lending staff, trends in delinquencies, and the volume and terms of loans.

See the section captioned "Allowance for Credit Losses" elsewhere in this document for further analysis of our provision for credit losses.

Year ended December 31, 2023 compared to year ended December 31, 2022

We recorded a credit provision for credit losses of $15,000 during the year ended December 31, 2023 compared to a credit provision of $2.8 million recorded during the year ended December 31, 2022. The credit provision recorded during the year ended December 31, 2023 was due to the decrease in reserves allocated to individually analyzed loans, as well as a decrease in the general reserves allocated to our residential mortgage loan portfolio as the outlook for the national housing price index improved during 2023, offset by general reserves allocated for the increase in loan balances during the year. Our allowance for credit losses as a percentage of gross loans for the periods ended December 31, 2023 and 2022 was 0.58% and 0.45%, respectively. Our allowance for credit losses as a percent of gross loans is relatively lower than our peers due to our high percentage of residential mortgage loans, which tend to have lower allowance for credit loss ratios compared to other commercial or consumer loans due to their low LTVs.

Year ended December 31, 2022 compared to year ended December 31, 2021

We recorded a credit provision for loan losses of $2.8 million during the year ended December 31, 2022 compared to $6.9 million provision expense recorded during the year ended December 31, 2021. The credit provision for loan losses recorded during the year ended December 31, 2022 was due to the release of additional reserves allocated for the uncertainties in our loan portfolio caused by the COVID-19 pandemic as certain loans that were modified during the COVID-19 pandemic returned to their contractual payment terms. We did not experience the level of credit deterioration for these loans that we had initially anticipated. Our allowance for credit losses as a percentage of gross loans for the periods ended December 31, 2022 and 2021 was 0.45% and 0.67%, respectively. None of the ACL balance was allocated to our PPP loan portfolio at December 31, 2022 and 2021. Our ACL as a percent of gross loans is relatively lower than our peers due to our high percentage of residential mortgage loans, which tend to have lower allowance for credit loss ratios compared to other commercial or consumer loans.

Noninterest Income

Noninterest income is an important component of our total revenues. An important portion of our noninterest income is associated with SBA and residential mortgage lending activity, consisting of gains on the sale of loans sold in the secondary market and servicing income from loans sold with servicing rights retained. Other sources of noninterest income include service charges on deposit accounts and other service charges, commissions and fees.

The following table sets forth the major components of our noninterest income for the years ended December 31, 2023, 2022 and 2021:

	Years Ended December 31,			2023 vs. 2022		2022 vs. 2021	
(Dollars in thousands)	2023	2022	2021	$ Change	% Change	$ Change	% Change
Noninterest Income:							
Service charges on deposit accounts	$ 1,918	$ 1,991	$ 1,696	$ (73)	(3.7)%	$ 295	17.4 %
Other service charges, commissions and fees	5,657	9,725	14,437	(4,068)	(41.8)	(4,712)	(32.6)
Gain on sale of residential mortgage loans	—	2,017	—	(2,017)	(100.0)	2,017	100.0
Mortgage servicing income, net	(193)	(561)	(564)	368	65.6	3	0.5
Gain on sale of SBA loans	3,299	2,068	10,952	1,231	59.5	(8,884)	(81.1)
SBA servicing income, net	4,796	1,825	5,884	2,971	162.8	(4,059)	(69.0)
Other income	2,727	1,053	1,284	1,674	159.0	(231)	(18.0)
Total noninterest income	$ 18,204	$ 18,118	$ 33,689	$ 86	0.5 %	$ (15,571)	(46.2)%

Year ended December 31, 2023 compared to year ended December 31, 2022

Service charges on deposit accounts were $1.9 million for the year ended December 31, 2023 compared to $2.0 million for the year ended December 31, 2022, a decrease of $73,000, or 3.7%. The decrease was primarily attributable to decreased overdraft fees, analysis fees and wire transfer fees.

Other service charges, commissions and fees decreased $4.1 million, or 41.8%, to $5.7 million for the year ended December 31, 2023 compared to $9.7 million for the year ended December 31, 2022. The decrease is mainly attributable to lower underwriting, processing and origination fees earned from our origination of residential mortgage loans as mortgage volume declined during the year ended December 31, 2023 compared to the year ended December 31, 2022. Mortgage loan originations totaled $337.0 million during the year ended December 31, 2023 compared to $833.6 million during the year ended December 31, 2022.

Total gain on sale of loans was $3.3 million for the year ended December 31, 2023 compared to $4.1 million for the year ended December 31, 2022, a decrease of $786,000, or 19.2%.

We recorded no gain on sale of residential mortgage loans during the year ended December 31, 2023 as no residential mortgage loans were sold during the period. Gain on sale of residential loans totaled $2.0 million for the year ended December 31, 2022 as we sold $94.9 million in residential mortgage loans during the period with an average premium of 2.13%.

Gain on sale of SBA loans totaled $3.3 million for the year ended December 31, 2023 compared to $2.1 million for the year ended December 31, 2022. We sold $72.9 million in SBA loans during the year ended December 31, 2023 with average premiums of 6.09% compared to the sale of $31.5 million in SBA loans with an average premium of 8.45% in the year ended Decemer 31, 2022.

Mortgage loan servicing income had an expense balance of $193,000 for the year ended December 31, 2023 compared to an expense balance of $561,000 for the year ended December 31, 2022, an increase of $368,000, or 65.6%. The change in mortgage loan servicing income was primarily due to the decrease in mortgage servicing amortization, offset by decreases in mortgage servicing fees and capitalized mortgage servicing assets. Included in mortgage loan servicing income for the year ended December 31, 2023 was $2.5 million in mortgage servicing fees compared to $3.2 million for 2022, and capitalized mortgage servicing assets of $0 for the year ended December 31, 2023 compared to $761,000 for 2022. These amounts were offset by mortgage loan servicing asset amortization of $2.7 million for the year ended December 31, 2023 compared to $4.7 million for the year ended December 31, 2022. During the year ended December 31, 2023, we did not record a fair value impairment on our mortgage servicing assets. During the year ended December 31, 2022, we recorded a fair value impairment recovery of $163,000. Our total residential mortgage loan servicing portfolio was $443.1 million at December 31, 2023 compared to $526.7 million at December 31, 2022.

SBA servicing income was $4.8 million for the year ended December 31, 2023 compared to $1.8 million for the year ended December 31, 2022, an increase of $3.0 million, or 162.8%. Our total SBA and USDA loan servicing portfolio was $508.0 million as of December 31, 2023 compared to $465.1 million as of December 31, 2023. SBA servicing fees totaled $4.6 million for the year ended December 31, 2023 compared to $5.0 million for the year ended December 31, 2022. Our SBA servicing rights are carried at fair value and inputs used to calculate fair value change from period to period. During the year ended December 31, 2023, we recorded a $201,000 fair value gain on our SBA servicing rights compared to a $3.1 million fair value adjustment charge on our SBA servicing rights during the year ended December 31, 2022.

Other noninterest income was $2.7 million for the year ended December 31, 2023 compared to $1.1 million for the year ended December 31, 2022, an increase of $1.7 million, or 159.0%. The largest component of other noninterest income is the income on bank owned life insurance, which totaled $1.8 million and $1.7 million, respectively, for the years ended December 31, 2023 and 2022. Also included in other noninterest income are fair value gains/losses on our equity securities, which totaled $35,000 (gain) and $1.1 million (loss), respectively, for the years ended December 31, 2023 and 2022.

Year ended December 31, 2022 compared to year ended December 31, 2021

Service charges on deposit accounts were $2.0 million for the year ended December 31, 2022 compared to $1.7 million for the year ended December 31, 2021, an increase of $295,000, or 17.4%. The increase was primarily attributable to increased analysis fees and overdraft fees.

Other service charges, commissions and fees decreased $4.7 million, or 32.6%, to $9.7 million for year ended December 31, 2022 compared to $14.4 million for the year ended December 31, 2021. The decrease is mainly attributable to lower underwriting, processing and origination fees earned from our origination of residential mortgage loans as mortgage volume declined during the year ended December 31, 2022 compared to the year ended December 31, 2021.

Mortgage loan originations totaled $833.6 million during the year ended December 31, 2022 compared to $1.20 billion during the year ended December 31, 2021.

Total gain on sale of loans was $4.1 million for the year ended December 31, 2022 compared to $11.0 million for the year ended December 31, 2021, a decrease of $6.9 million, or 62.7%.

Gain on sale of residential loans totaled $2.0 million for the year ended December 31, 2022 compared to no gain on sale of residential mortgage loans recorded for the year ended December 31, 2021 as no mortgage loans were sold during 2021. We sold $94.9 million in residential mortgage loans with an average premium of 2.13% during the year ended December 31, 2022.

Gain on sale of SBA loans totaled $2.1 million for the year ended December 31, 2022 compared to $11.0 million for the year ended December 31, 2021. We sold $31.5 million in SBA loans during the year ended December 31, 2022 with average premiums of 8.45% compared to the sale of $124.7 million in SBA loans with an average premium of 10.67% in the year ended December 31, 2021.

Mortgage loan servicing income had an expense balance of $561,000 for the year ended December 31, 2022 compared to an expense balance of $564,000 for the year ended December 31, 2021, a slight increase of $3,000, or 0.5%. Included in mortgage loan servicing income for the year ended December 31, 2022 was $3.2 million in mortgage servicing fees compared to $4.7 million for 2021, and capitalized mortgage servicing assets of $761,000 for the year ended December 31, 2022 compared to $0 for 2021. These amounts were offset by mortgage loan servicing asset amortization of $4.7 million for the year ended December 31, 2022 compared to $5.7 million for the year ended December 31, 2021. During the year ended December 31, 2022, we recorded fair value impairment recovery of $163,000 on our mortgage servicing assets compared to a fair value impairment recovery of $478,000 recorded during the year ended December 31, 2021. Our total residential mortgage loan servicing portfolio was $526.7 million at December 31, 2022 compared to $608.2 million at December 31, 2021.

SBA servicing income was $1.8 million for the year ended December 31, 2022 compared to $5.9 million for the year ended December 31, 2021, a decrease of $4.1 million, or 69.0%. Our total SBA loan servicing portfolio was $465.1 million as of December 31, 2022 compared to $543.0 million as of December 31, 2021. SBA servicing fees totaled $5.0 million for the year ended December 31, 2022 compared to $5.3 million for the year ended December 31, 2021. Our SBA servicing rights are carried at fair value and inputs used to calculate fair value change from period to period. During the year ended December 31, 2022, we recorded a $3.1 million fair value adjustment charge on our SBA servicing rights compared to a $619,000 fair value gain on our SBA servicing rights during the year ended December 31, 2021.

Other noninterest income was $1.1 million for the year ended December 31, 2022 compared to $1.3 million for the year ended December 31, 2021, a decrease of $231,000, or 18.0%. The largest component of other noninterest income is the income on bank owned life insurance, which totaled $1.7 million and $1.1 million, respectively, for the years ended December 31, 2022 and 2021. Also included in other noninterest income are fair value losses on our equity securities, which totaled $1.1 million and $114,000, respectively, for the years ended December 31, 2022 and 2021.

Noninterest Expense

The following table sets forth the major components of our noninterest expense for the years ended December 31, 2023, 2022 and 2021:

(Dollars in thousands)	Years Ended December 31, 2023	2022	2021	2023 vs. 2022 $ Change	% Change	2022 vs. 2021 $ Change	% Change
Noninterest Expense:							
Salaries and employee benefits	$ 29,304	$ 30,502	$ 30,112	$ (1,198)	(3.9)%	$ 390	1.3 %
Occupancy and equipment	4,893	4,857	5,028	36	0.7	(171)	(3.4)
Data processing	1,229	1,095	1,100	134	12.2	(5)	(0.5)
Advertising	614	606	541	8	1.3	65	12.0
Other expenses	11,686	12,219	11,529	(533)	(4.4)	690	6.0
Total noninterest expense	$ 47,726	$ 49,279	$ 48,310	$ (1,553)	(3.2)%	$ 969	2.0 %

Year ended December 31, 2023 compared to year ended December 31, 2022

Salaries and employee benefits expense for the year ended December 31, 2023 was $29.3 million compared to $30.5 million for the year ended December 31, 2022, a decrease of $1.2 million, or 3.9%. This decrease was primarily attributable to lower commissions paid to our loan officers as loan volume declined during the year ended December 31, 2023. These decreases were offset by higher employee salaries and benefits due to the increase in the overall number of employees necessary to support our continued growth and annual salary adjustments, as well as increased restricted stock expense. The average number of full-time equivalent employees was 220 for the year ended December 31, 2023 compared to 216 for the year ended December 31, 2022.

Occupancy expense for the year ended December 31, 2023 was $4.9 million compared to $4.9 million for the year ended December 31, 2022, a slight increase of $36,000, or 0.7%. This increase was partially due to higher maintenance and repairs expense, partially offset by lower depreciation expense.

Data processing expense for the years ended December 31, 2023 was $1.2 million compared to $1.1 million for the year ended December 31, 2022, an increase of $134,000, or 12.2%. The increase was consistent with the continued growth of our loans and deposits.

Advertising expense of $614,000 for the year ended December 31, 2023 remained relatively flat compared to $606,000 for the year ended December 31, 2022.

Other expenses for the year ended December 31, 2023 were $11.7 million compared to $12.2 million for the year ended December 31, 2022, a decrease of $533,000, or 4.4%. The decrease was primarily due to lower loan related expenses, communications expense, security expense and business taxes, offset by higher FDIC deposit insurance premiums, professional fees, mobile and internet banking expenses, and other real estate owned expenses. Included in other expenses were directors' fees of $617,000 and $565,000 for the years ended December 31, 2023 and 2022, respectively.

Year ended December 31, 2022 compared to year ended December 31, 2021

Salaries and employee benefits expense for the year ended December 31, 2022 was $30.5 million compared to $30.1 million for the year ended December 31, 2021, an increase of $390,000, or 1.3%. This increase was mainly attributable to the increase in the overall number of employees necessary to support our continued growth and annual salary adjustments, as well as increased restricted stock expense, offset by lower commissions paid to our loan officers as loan volume declined during the year ended December 31, 2022. The average number of full-time equivalent employees was 216 for the year ended December 31, 2022 compared to 213 for the year ended December 31, 2021.

Occupancy expense for the year ended December 31, 2022 was $4.9 million compared to $5.0 million for year ended December 31, 2021, a decrease of $171,000, or 3.4%. This decrease was partially due to lower maintenance and repairs expense and rent expense.

Data processing expense for the years ended December 31, 2022 and 2021 remained flat at $1.1 million.

Advertising expense for the year ended December 31, 2022 was $606,000 compared to $541,000 for 2021, an increase of $65,000, or 12.0%. The increase was consistent with the continued growth of our loans and deposit.

Other expenses for the year ended December 31, 2022 were $12.2 million compared to $11.5 million for the year ended December 31, 2021, an increase of $690,000, or 6.0%. The increase was primarily due to higher FDIC deposit insurance premiums, professional fees, and communication expenses, offset by lower loan and other real estate owned expenses. Included in other expenses were directors' fees of $565,000 and $455,000 for the years ended December 31, 2022 and 2021, respectively.

Income Tax Expense

Income tax expense for the years ended December 31, 2023, 2022 and 2021 was $20.4 million, $28.6 million and $20.9 million, respectively. The Company's effective tax rates for the years ended December 31, 2023, 2022 and 2021 were 28.3%, 31.4% and 25.3%, respectively. The elevated effective tax rate for the year ended December 31, 2022 was due to the re-allocation of state income tax apportionment schedules from prior year tax returns, as well as corrections for the treatment of prior year's state tax credits. The effective tax rate of 28.3% for the year ended December 31, 2023 should be the more normalized tax rate for the Company going forward.

We had a net deferred tax liability of $2.3 million at December 31, 2023, a net deferred tax liability of $1.6 million at December 31, 2022 and net deferred tax asset of $2.2 million at December 31, 2021.

Return on Equity and Assets

The following table sets forth our return on average assets, return on average equity, dividend payout ratio and average shareholders' equity to average assets ratio for the periods indicated:

	Years Ended December 31,		
	2023	**2022**	**2021**
Return on average assets	1.50 %	1.96 %	2.51 %
Return on average equity	14.10 %	19.55 %	23.55 %
Dividend payout ratio	35.43 %	24.52 %	19.17 %
Average shareholders' equity to average assets	10.63 %	10.05 %	10.65 %

For the year ended December 31, 2023 and 2022, our average equity includes $22.1 million and $7.6 million, respectively, of average accumulated other comprehensive income. This amount includes unrealized losses on our available for sale securities portfolio and significant unrealized gains on our interest rate derivatives. Excluding the average accumulated other comprehensive income balance, the return on average equity was 15.00% and 20.02% for the years ended December 31, 2023 and 2022, respectively. The average accumulated other comprehensive income balance had little to no impact on the return on average equity for the years ended December 31, 2021.

Financial Condition

Total assets increased $75.6 million, or 2.2%, to $3.50 billion at December 31, 2023 as compared to $3.43 billion at December 31, 2022. The increase in total assets was primarily attributable to increases in loans held for investment of $86.4 million, loans held for sale of $22.3 million, premises and equipment of $3.9 million and interest rate derivatives of $3.0 milion, partially offset by a decrease in cash and cash equivalents of $34.7 million and an increase of $4.2 million in the allowance for credit losses.

Our investment securities portfolio made up only 0.82% of our total assets at December 31, 2023 compared to 0.86% at December 31, 2022.

Loans

Our loans represent the largest portion of our earning assets, substantially greater than the securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing our financial condition.

Our gross loans held for investment increased $85.6 million, or 2.8%, to $3.15 billion as of December 31, 2023 compared to $3.07 billion as of December 31, 2022. Our loan growth during the year ended December 31, 2023 was comprised of a decrease of $24.5 million, or 51.3%, in construction and development loans, an increase of $53.9 million, or 8.2%, in commercial real estate loans, an increase of $12.7 million, or 23.9%, in commercial and industrial loans, an increase of $43.4 million, or 1.9%, in residential real estate loans and an increase of $103,000, or 47.7%, in consumer and other loans. Loans classified as held for sale totaled $23.6 million as of December 31, 2023. There were no loans classified as held for sale as of December 31, 2022.

The following table presents the ending balance of each major category in our loan portfolio held for investment as of the dates indicated.

	December 31,									
	2023		2022		2021		2020		2019	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Construction and Development	$ 23,262	0.7 %	$ 47,779	1.6 %	$ 38,857	1.6 %	$ 45,653	2.8 %	$ 31,739	2.7 %
Commercial Real Estate	711,177	22.6	657,246	21.4	520,488	20.7	477,419	29.2	424,950	36.5
Commercial and Industrial	65,904	2.1	53,173	1.7	73,072	2.9	137,239	8.4	53,105	4.6
Residential Real Estate	2,350,299	74.6	2,306,915	75.3	1,879,012	74.8	974,445	59.6	651,645	56.0
Consumer and other	319	0.0	216	0.0	79	0.0	183	0.0	1,768	0.2
Total gross loans	3,150,961	100.0 %	3,065,329	100.0 %	2,511,508	100.0 %	1,634,939	100.0 %	1,163,207	100.0 %
Unearned income	(8,856)		(9,640)		(6,438)		(4,595)		(2,045)	
Allowance for credit losses	(18,112)		(13,888)		(16,952)		(10,135)		(6,839)	
Total loans, net	$ 3,123,993		$ 3,041,801		$ 2,488,118		$ 1,620,209		$ 1,154,323	

The following table presents the maturity distribution of our loans held for investment as of December 31, 2023. The table also shows the distribution of such loans between those loans with predetermined (fixed) interest rates and those with variable (floating) interest rates.

	December 31, 2023				
(Dollars in thousands)	One Year or Less	One to Five Years	Five to Fifteen Years	Over Fifteen Years	Total
Construction and Development	$ 10,502	$ 2,156	$ 10,604	$ —	$ 23,262
Commercial Real Estate	40,628	272,232	142,566	255,751	711,177
Commercial and Industrial	3,361	31,042	31,501	—	65,904
Residential Real Estate	—	352	935,337	1,414,610	2,350,299
Consumer and other	319	—	—	—	319
Total gross loans	$ 54,810	$ 305,782	$ 1,120,008	$ 1,670,361	$ 3,150,961
Amounts with fixed rates	$ 30,534	$ 151,271	$ 961,324	$ 200,414	$ 1,343,543
Amounts with floating or adjustable rates	24,276	154,511	158,684	1,469,947	1,807,418
Total gross loans	$ 54,810	$ 305,782	$ 1,120,008	$ 1,670,361	$ 3,150,961

Our loan portfolio is concentrated in commercial real estate and residential mortgage loans with the remaining balance in construction and development, commercial and industrial, and consumer loans. 97.9% of our gross loans held for investment were secured by real property as of December 31, 2023, compared to 98.3% as of December 31, 2022 and 97.1% as of December 31, 2021.

We have established concentration limits in the loan portfolio for commercial real estate loans, commercial and industrial loans, and unsecured lending, among others. All loan types are within established limits. We use underwriting guidelines to assess the borrowers' historical cash flow to determine debt service, and we further stress test the debt service under higher interest rate scenarios. Financial and performance covenants are used in commercial lending agreements to allow us to react to a borrower's deteriorating financial condition, should that occur. For more information, see "Item 1 – Business – Lending Activities."

The principal categories of our loan portfolios are discussed below:

Construction and development loans. Our construction and development loans are comprised of commercial construction and land acquisition and development construction. Interest reserves are generally established on real estate construction loans. These loans typically carry a fixed interest rate and have maturities of less than 18 months. Our LTV policy limits are 65% for construction and development loans. Additionally, we impose limits on the total dollar amount of this category of our portfolio. The risks inherent in construction lending may affect adversely our results of operations. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take-out financing. Loans secured by such properties also involve additional risk because they have no operating history. Advances on construction loans are made relative to the overall percentage of completion on the project in an effort to remain adequately secured. Such properties may not be sold or leased so as to generate the cash flow anticipated by the borrower.

As of December 31, 2023, our construction and development loans comprised $23.3 million, or 0.7%, of total loans held for investment, compared to $47.8 million, or 1.6%, of total loans held for investment as of December 31, 2022. This compares to $38.9 million, or 1.6%, of total loans held for investment as of December 31, 2021.

Commercial real estate loans. Commercial real estate loans include owner-occupied and non-owner occupied commercial real estate. We require our commercial real estate loans to be secured by what we believe to be well-managed property with adequate margins and we generally obtain a personal guarantee from responsible parties. We originate both fixed-rate and adjustable-rate loans with terms up to 25 years. At December 31, 2023, approximately 92.4% of our commercial real estate loans were owner-occupied.

As of December 31, 2023, our loans secured by commercial real estate were $711.2 million, or 22.6%, of total loans held for investment compared to $657.2 million, or 21.4%, as of December 31, 2022. This increase was due to consistent loan production and market demand for these types of loans. Commercial real estate loans were $520.5 million, or 20.7%, of our portfolio as of December 31, 2021. Our non-owner occupied commercial real estate loans make up a small percentage of our overall commercial real estate loan portfolio. Non-owner occupied commercial real estate loans were 7.6%, 10.4%, and 12.4%, as a percentage of commercial real estate loans for the years ending December 31, 2023, 2022, and 2021, respectively.

We originate both fixed and adjustable rate loans. Adjustable rate loans are based on SOFR, prime rate or constant maturity treasury ("CMT"). At December 31, 2023 and 2022, approximately 28.9% and 25.2% of the commercial real estate portfolio consisted of fixed-rate loans, respectively. Our policy maximum LTV is 85% for commercial real estate loans. However, our weighted average LTV is well below this policy maximum. Newly originated and renewed non-SBA commercial real estate loans for the years ending December 31, 2023 and 2022 carried a weighted average LTV of 46.4% and 57.7%, respectively.

Commercial and industrial loans. We provide a mix of variable and fixed rate commercial and industrial loans. The loans are typically made to small and medium-sized businesses for working capital needs, business expansions and for trade financing. We extend commercial business loans on an unsecured and secured basis for working capital, accounts receivable and inventory financing, machinery and equipment purchases, and other business purposes. Generally, short-term loans have maturities ranging from six months to one year, and “term loans” have maturities ranging from five to ten years. Loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans generally provide for floating interest rates, with monthly payments of both principal and interest.

As of December 31, 2023, our commercial and industrial loans comprised $65.9 million, or 2.1%, of total loans held for investement, compared to $53.2 million, or 1.7% of total loans held for investment as of December 31, 2022. This increase was due to consistent loan production and market demand for these types of loans. This compares to $73.1 million, or 2.9%, of total loans held for investment as of December 31, 2021.

A large portion of both our commercial real estate and commercial and industrial loans are SBA loans. We are designated an SBA Preferred Lender under the SBA Preferred Lender Program. We offer mostly SBA 7(a) variable-rate loans. We have historically sold the guaranteed portion (75%-90%) of the SBA loans that we originate. Our SBA loans are typically made to small-sized retail, hotel/motel, service and distribution businesses for working capital needs or business expansions. SBA loans have maturities up to 25 years. Typically, non-real estate secured loans mature in less than 10 years. Collateral may also include inventory, accounts receivable and equipment, and may include personal guarantees. Our unguaranteed SBA loans collateralized by real estate are monitored by collateral type and included in our CRE Concentration Guidance. As of December 31, 2023, our SBA portfolio totaled $286.9 million compared to $304.3 million as of December 31, 2022. This decrease was primarily the result of the increase in SBA loans sold during 2023 coupled with the decrease in SBA loan originations during the year. We originated and sold $88.1 million and $72.9 million during the year ended December 31, 2023 compared to originations and sales of $136.7 million and $31.5 million for the year ended December 31, 2022. We originated and sold $285.8 million and $124.7 million of SBA loans during the year ended December 31, 2021.

From our total SBA loan portfolio of $286.9 million at December 31, 2023, $254.2 million is secured by real estate and $32.7 million is unsecured or secured by business assets, which we classify as commercial and industrial loans.

Residential real estate loans. We originate mainly non-conforming single-family residential mortgage loans through our branch network, without the use of any third party originator. During 2023, our primary loan products were 15-year and 30-year fixed rate products and a three-year, five-year or ten-year hybrid adjustable rate mortgage which reprice after three, five or ten years to the one-year CMT plus certain spreads. We originate the residential mortgage loans to hold for investment and also sell on the secondary market when premiums are elevated or for liquidity purposes.

As of December 31, 2023, our residential real estate loans comprised $2.35 billion, or 74.6%, of total loans held for investment, compared to $2.31 billion, or 75.3%, of total loans held for investment as of December 31, 2022. This compares to $1.88 billion, or 74.8%, of total loans held for investment as of December 31, 2021. The increase in 2023 was due to management’s decision to hold all of our production for investment rather than sell our residential loans on the secondary market. During the years ended December 31, 2023 and 2022, we originated $337.0 million and $833.6 million and sold $0 and $94.9 million, respectively, in residential mortgage loans. During the year ended December 31, 2021, we originated $1.20 billion and sold $0 in residential mortgage loans.

Consumer and other loans. These loans represent a small portion of our overall portfolio and primarily consists of overdrafts and consumer lines of credit. Consumer loans carry a greater amount of risk and collections are dependent on the borrower’s continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans.

As of December 31, 2023, our consumer and other loans totaled $319,000 compared to $216,000 as of December 31, 2022. This compares to $79,000 as of December 31, 2021.

Nonperforming Assets

Loans are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 90 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal and interest payments are past due 90 days or more or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. All payments received while a loan is on nonaccrual status are applied against the principal balance of the loan. The Company does not recognize interest income while loans are on nonaccrual status. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as OREO until sold, and is carried at the balance of the loan at the time of foreclosure or at estimated fair value less estimated costs to sell, whichever is less.

Nonperforming loans include loans 90 days or more past due and still accruing, loans accounted for on a nonaccrual basis and accruing restructured loans. Nonperforming assets consist of nonperforming loans plus OREO.

Nonperforming loans were $36.9 million at December 31, 2023 compared to $20.2 million at December 31, 2022 and $11.8 million at December 31, 2021. The increase from December 31, 2022 to December 31, 2023 was primarily attributable to a $6.8 million increase in nonaccrual residential real estate loans and a $12.3 million increase in accruing restructured loans, offset by a $3.9 million decrease in commercial real estate loans and a $2.9 million decrease in other real estate owned. The increase from December 31, 2021 to December 31, 2022 was primarily attributable to a $1.2 million increase in nonaccrual commercial real estate loans and a $7.2 million increase in accruing restructured loans. The decrease from December 31, 2020 to December 31, 2021 was primarily attributable to a $2.4 million decrease in nonaccrual residential real estate loans, offset by a $857,000 increase in nonaccrual commercial real estate loans and $342,000 increase in loans past due ninety days or more and still accruing. We did not recognize any interest income on nonaccrual loans during the years ended December 31, 2023, 2022 and 2021.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest, and loan modifications. At December 31, 2023, included in nonaccrual loans were $548,000 of construction and development loans, $991,000 of commercial real estate loans, $1.3 million in commercial and industrial loans and $11.9 million in residential real estate loans. Nonaccrual loans at December 31, 2022 comprised of $4.9 million of commercial real estate loans, $136,000 in commercial and industrial loans and $5.0 million in residential real estate loans. The weighted average LTV of nonaccrual residential real estate loans was approximately 52.8% at December 31, 2023.

	December 31,				
(Dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Nonaccrual loans	$ 14,682	$ 10,065	$ 8,759	$ 10,203	$ 12,236
Past due loans 90 days or more and still accruing	—	180	342	—	—
Accruing restructured loans	22,233	9,919	2,697	2,891	2,459
Total nonperforming loans	36,915	20,164	11,798	13,094	14,695
Other real estate owned	1,466	4,328	3,618	3,844	423
Total nonperforming assets	$ 38,381	$ 24,492	$ 15,416	$ 16,938	$ 15,118
Nonperforming loans to gross loans	1.17 %	0.66 %	0.47 %	0.80 %	1.26 %
Nonperforming assets to total assets	1.10 %	0.71 %	0.50 %	0.89 %	0.93 %
Allowance for credit losses to nonperforming loans	49.06 %	68.88 %	143.69 %	77.40 %	46.54 %

Allowance for credit losses

The allowance for credit losses was $18.1 million at December 31, 2023 compared to $13.9 million at December 31, 2022, an increase of $4.2 million, or 30.4%. The increase was due to the CECL adoption during the first quarter of 2023, offset by a decrease in reserves allocated to individually analyzed loans and $764,000 in charge-offs recorded during the year ended December 31, 2023. The CECL approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It removes the incurred loss approach's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred.

We maintain a reserve for credit losses that consist of two components, the allowance for credit losses (ACL) on funded loans and the ACL for unfunded commitments, The allowance for credit losses provides for the risk of credit losses expected in our loan portfolio and is based on loss estimates derived from a comprehensive quarterly evaluation. The evaluation reflects analyses of individual borrowers coupled with analysis of historical loss experience in various loan pools that have been grouped based on similar risk characteristics, supplemented as necessary by credit judgment that considers observable trends, conditions, reasonable and supportable forecasts, and other relevant environmental and economic factors. The level of the allowance for credit losses is adjusted by recording an expense or credit through the provision for credit losses. The level of the allowance for unfunded commitments is adjusted by recording an expense or credit in other noninterest expense. The allowance for unfunded commitments was created upon adoption of CECL on January 1, 2023 and had a balance of $315,000 as of December 31, 2023.

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

The impact of utilizing the CECL approach to calculate the allowance for credit losses will be significantly influenced by the composition, characteristics and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Material changes to these and other relevant factors may result in greater volatility to the provision for credit losses, and therefore, greater volatility to our reported earnings. See Note 1 and Note 3 of our consolidated financial statements as of December 31, 2023, included elsewhere in this Annual Report on Form 10-K, for additional information on the on the allowance for credit losses and the allowance for unfunded commitments.

It is the policy of management to maintain the allowance for credit losses at a level adequate for risks inherent in the loan portfolio. The FDIC and GA DBF also review the allowance for credit losses as an integral part of their examination process. Based on information currently available, management believes that our allowance for credit losses is adequate. However, the loan portfolio can be adversely affected if economic conditions and the real estate market in our market areas were to weaken. The effect of such events, although uncertain at this time, could result in an increase in the level of nonperforming loans and increased credit losses, which could adversely affect our future growth and profitability. No assurance of the ultimate level of credit losses can be given with any certainty.

Analysis of the Allowance for Credit Losses. The following table provides an analysis of the allowance for credit losses, provision for loan losses and net charge-offs for the periods presented below:

(Dollars in thousands)	December 31, 2023	2022	2021	2020	2019
Balance, beginning of period	$ 13,888	$ 16,952	$ 10,135	$ 6,839	$ 6,645
CECL adoption (Day 1) impact	5,055	—	—	—	—
Charge-offs:					
Construction and development	—	—	—	—	—
Commercial real estate	455	—	67	109	237
Commercial and industrial	309	390	64	51	14
Residential real estate	—	—	—	—	—
Consumer and other	—	—	—	97	525
Total charge-offs	764	390	131	257	776
Recoveries:					
Construction and development	—	—	—	—	—
Commercial real estate	5	7	12	10	752
Commercial and industrial	20	81	—	25	—
Residential real estate	—	—	—	—	—
Consumer and other	—	5	7	51	218
Total recoveries	25	93	19	86	970
Net charge-offs/(recoveries)	739	297	112	171	(194)
Provision for credit losses	(92)	(2,767)	6,929	3,467	—
Balance, end of period	$ 18,112	$ 13,888	$ 16,952	$ 10,135	$ 6,839
Total loans at end of period	$ 3,150,961	$ 3,065,329	$ 2,511,508	$ 1,634,939	$ 1,163,207
Average loans[(1)]	3,039,361	2,761,195	2,109,249	1,365,129	1,218,219
Net charge-offs to average loans	0.02 %	0.01 %	0.01 %	0.01 %	(0.02)%
Allowance for credit losses to total loans	0.57 %	0.45 %	0.67 %	0.62 %	0.59 %

(1) Excludes loans held for sale.

Management believes the allowance for credit losses is adequate to provide for losses inherent in the loan portfolio as of December 31, 2023.

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

	December 31,									
	2023		2022		2021		2020		2019	
(Dollars in thousands)	Allowance for Credit Losses	% of Loans to Total Loans	Allowance for Credit Losses	% of Loans to Total Loans	Allowance for Credit Losses	% of Loans to Total Loans	Allowance for Credit Losses	% of Loans to Total Loans	Allowance for Credit Losses	% of Loans to Total Loans
Construction and Development	$ 46	0.7 %	$ 124	1.6 %	$ 100	1.6 %	$ 178	2.8 %	$ 131	2.7 %
Commercial Real Estate	6,876	22.6	2,811	21.4	4,146	20.7	5,161	29.2	2,320	36.5
Commercial and Industrial	588	2.1	1,326	1.7	4,989	2.9	438	8.4	448	4.6
Residential Real Estate	10,597	74.6	9,626	75.3	7,717	74.8	4,350	59.6	3,457	56.0
Consumer and other	5	—	1	—	—	—	8	—	91	0.2
Unallocated	—	—	—	—	—	—	—	—	392	—
Total allowance for credit losses	$ 18,112	100.0 %	$ 13,888	100.0 %	$ 16,952	100.0 %	$ 10,135	100.0 %	$ 6,839	100.0 %

Investment Securities

Our securities portfolio is the third largest component of our interest earning assets. The portfolio serves the following purposes: (i) to optimize the Bank's income consistent with the investment portfolio's liquidity and risk objectives; (ii) to balance market and credit risks of other assets and the Bank's liability structure; (iii) to profitably deploy funds which are not needed to fulfill loan demand, deposit redemptions or other liquidity purposes; (iv) to provide collateral which the Bank is required to pledge against public funds; and (v) to provide investments for Community Reinvestment Act (CRA) purposes.

We classify our debt securities as either available-for-sale or held-to-maturity at the time of purchase. Accounting guidance requires available-for-sale securities to be marked to fair value with an offset to accumulated other comprehensive income (loss), a component of shareholders' equity. Monthly adjustments are made to reflect changes in the fair value of our available-for-sale securities.

All of the debt securities in our investment portfolio were classified as available-for-sale as of December 31, 2023. All available-for-sale securities are carried at fair value. Securities available-for-sale consist primarily of U.S. government-sponsored agency securities, home mortgage-backed securities and state and municipal bonds. No issuer of the available-for-sale securities comprised more than ten percent of our shareholders' equity as of December 31, 2023, 2022 or 2021.

The following table presents the amortized cost and fair value of our available-for-sale securities portfolio as of the dates presented.

	Year Ended December 31,					
	2023		2022		2021	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government entities and agencies	$ 4,637	$ 4,637	$ 5,059	$ 5,059	$ 6,949	$ 6,949
States and political subdivisions	8,072	6,782	8,121	6,403	8,169	8,361
Mortgage-backed GSE residential	8,669	7,074	9,540	7,783	10,562	10,423
Total securities available for sale	$ 21,378	$ 18,493	$ 22,720	$ 19,245	$ 25,680	$ 25,733

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. The Company does not believe that the securities available for sale that were in an unrealized loss position as of December 31, 2023 represent a credit loss impairment. As of December 31, 2023, there have been no payment defaults nor do we currently expect any future payment defaults. Furthermore, the Company does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

The following table sets forth certain information regarding contractual maturities and the weighted average yields of our investment securities available for sale as of the dates presented. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	As of December 31, 2023									
	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total	
(Dollars in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Obligations of U.S. Government entities and agencies	$ —	— %	$ 4,637	3.55 %	$ —	— %	$ —	— %	$ 4,637	3.55 %
States and political subdivisions	—	—	845	2.09	376	2.33	5,561	2.18	6,782	2.18
Mortgage-backed GSE residential	736	1.19	1,261	1.47	930	1.85	4,147	1.89	7,074	1.74
Total securities available for sale	$ 736	1.19 %	$ 6,743	2.97 %	$ 1,306	1.99 %	$ 9,708	2.06 %	$ 18,493	2.55 %

We have not used interest rate swaps or other derivative instruments to hedge fixed rate loans or securities to otherwise mitigate our interest rate risk.

Equity Securities

As of both December 31, 2023 and December 31, 2022, the Company had equity securities with carrying values totaling $10.3 million. The equity securities consist of our investment in a bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts.

During the years ended December 31, 2023, 2022 and 2021, we recognized an unrealized gain of $35,000, an unrealized loss of $1.1 million and an unrealized loss of $114,000, respectively, in net income on our equity securities.

Deposits

Deposits represent the Bank's primary source of funds, and we gather deposits primarily through our branch locations, as well as the use of wholesale and brokered deposits. We offer a variety of deposit products including demand deposit accounts, interest-bearing products, savings accounts and certificate of deposits. We put continued effort into gathering noninterest-bearing demand deposits accounts through marketing to our existing and new loan customers, customer referrals, and expansion into new markets.

Total deposits increased $64.1 million, or 2.4%, to $2.73 billion at December 31, 2023 compared to $2.67 billion at December 31, 2022. As of December 31, 2023, 18.7% of total deposits were comprised of noninterest-bearing demand accounts and 81.3% of interest-bearing deposit accounts compared to 22.9% and 77.1% as of December 31, 2022, respectively. Total deposits increased $403.8 million, or 17.8%, to $2.67 billion at December 31, 2022 compared to $2.26 billion at December 31, 2021. Our noninterest-bearing demand accounts were 26.2% of total deposits and our interest-bearing deposits accounted for the remaining 73.8% of our deposits as of December 31, 2021.

As of December 31, 2023 and 2022, the Company had estimated uninsured deposits of $730.5 million and $874.7 million, respectively. These estimates were derived using the same methodologies and assumptions used for the Bank's regulatory reporting. Uninsured deposits were 26.5% of total deposits at December 31, 2023 compared to 32.5% at December 31, 2022. As of December 31, 2023, we had $1.21 billion of available borrowing capacity at the Federal Home Loan Bank ($721.1 million), Federal Reserve Discount Window ($446.3 million) and various other financial institutions (fed fund lines totaling $47.5 million).

We had brokered deposits of $766.3 million, or 28.1% of total deposits, at December 31, 2023 compared to $523.7 million, or 19.6% of total deposits, at December 31, 2022 and $425.1 million, or 18.8% of total deposits, at December 31, 2021. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to support our asset growth and augment the deposits generated from our branch network, which are our principal source of funding. Our level of brokered deposits varies from time to time depending on competitive interest rate conditions and other factors and tends to increase as a percentage of total deposits when the brokered deposits are less costly than issuing internet certificates of deposit or borrowing from the Federal Home Loan Bank.

We use interest rate swap and cap agreements to hedge our deposit accounts that are indexed to the Federal Funds Effective rate. These swap agreements are designated as cash flow hedges. As of December 31, 2023, the total amount of deposits tied to the Federal Funds Effective rate was $929.2 million. See Note 10 of our consolidated financial statements as of December 31, 2023, included elsewhere in this Annual Report on Form 10-K, for additional information.

The following table summarizes our average deposit balances and weighted average rates for the years ended December 31, 2023, 2022 and 2021:

	Year Ended December 31,					
	2023		2022		2021	
(Dollars in thousands)	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Noninterest-bearing demand deposits	$ 555,840	— %	$ 599,340	— %	$ 559,797	— %
Interest-bearing demand deposits	132,033	1.70	159,277	0.62	84,502	0.19
Savings and money market deposits	509,443	2.82	695,758	1.21	394,553	0.34
Brokered money market deposits	511,427	5.47	461,465	1.66	360,156	0.11
Time deposits	940,911	3.83	513,867	1.25	499,856	0.41
Total interest-bearing deposits	2,093,814	3.85	1,830,367	1.29	1,339,067	0.29
Total deposits	$ 2,649,654	3.04 %	$ 2,429,707	0.97 %	$ 1,898,864	0.21 %

The following table sets forth the scheduled maturities of time deposits of $250,000 or greater as of December 31, 2023:

(Dollars in thousands)	December 31, 2023
Remaining maturity:	
Three months or less	$ 148,923
Over three through six months	95,782
Over six through twelve months	227,496
Over twelve months	14,697
Total time deposits $250,000 or greater	$ 486,898

Borrowed Funds

Other than deposits, the Company utilizes FHLB advances as a supplementary funding source to finance our operations. The advances from the FHLB are collateralized by our residential real estate loans. At December 31, 2023 and December 31, 2022, we had available borrowing capacity from the FHLB of $721.1 million and $633.6 million, respectively. At December 31, 2023 and 2022, we had $325.0 million and $375.0 million, respectively, of outstanding advances from the FHLB.

The following table provides information related to our FHLB Advances for the periods indicated:

	As of or for the Year Ended December 31,		
(Dollars in thousands)	**2023**	**2022**	**2021**
Maximum amount outstanding at any month-end during the period	$ 425,000	$ 500,000	$ 500,000
Balance outstanding at end of period	325,000	375,000	500,000
Average outstanding balance during the period	350,000	368,333	237,500
Weighted average interest rate during the period	3.06 %	1.16 %	0.26 %
Weighted average interest rate at end of period	3.66	1.94	0.12

In addition to our advances with the FHLB, we maintain federal funds agreements with our correspondent banks. Our available borrowings under these agreements were $47.5 million at December 31, 2023 and 2022. We did not have any advances outstanding under these agreements for any of the periods presented. We also have access to the Federal Reserve's discount window in the amount of $446.3 million and $28.0 million at December 31, 2023 and 2022, respectively. No discount window borrowings were outstanding as of December 31, 2023 and 2022. We also maintain relationships in the capital markets with brokers to issue certificates of deposit and money market accounts.

Liquidity

Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Our liquidity position is supported by management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks, federal funds sold, and fair value of unpledged investment securities. Other available sources of liquidity include wholesale/brokered deposits and additional borrowings from correspondent banks, FHLB advances, and the Federal Reserve discount window.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

As part of our liquidity management strategy, we open federal funds lines with our correspondent banks. As of December 31, 2023 and 2022, we had $47.5 million of unsecured federal funds lines with no amounts advanced. In addition, the Company had Federal Reserve Discount Window funds available of approximately $446.3 million and $28.0 million at December 31, 2023 and 2022, respectively. The FRB discount window line is collateralized by a pool of construction and development, commercial real estate and commercial and industrial loans with carrying balances totaling $604.0 million as of December 31, 2023, as well as all of the Company's municipal and mortgage backed securities. There were no outstanding borrowings on this line as of December 31, 2023 and 2022.

At December 31, 2023 and 2022, we had $325.0 million and $375.0 million, respectively, of outstanding advances from the FHLB. Based on the values of residential mortgage loans pledged as collateral, we had $721.1 million and $633.6 million of additional borrowing availability with the FHLB as of December 31, 2023 and 2022, respectively. We also maintain relationships in the capital markets with brokers to issue certificates of deposit and money market accounts.

Capital Requirements

The Company and the Bank are required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy. For more information, see "Item 1. Business – Regulation and Supervision – Regulation of the Company – Capital Requirements."

The table below summarizes the capital requirements applicable to the Company and the Bank in order to be considered "well-capitalized" from a regulatory perspective, as well as the Company's and the Bank's capital ratios as of December 31, 2023 and 2022. The Bank exceeded all regulatory capital requirements and was considered to be "well-capitalized" as of December 31, 2023 and 2022. As of December 31, 2023, the FDIC categorized the Bank as well-capitalized under the prompt corrective action framework. There have been no conditions or events since December 31, 2023 that management believes would change this classification. While the Company believes that it has sufficient capital to withstand an extended economic recession, its reported and regulatory capital ratios could be adversely impacted in future periods.

(Dollars in thousands)	Actual		Minimum Capital Required Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	**Ratio**	**Amount ≥**	**Ratio ≥**	**Amount ≥**	**Ratio ≥**
As of December 31, 2023						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 372,482	17.60 %	222,188	10.50 %	N/A	N/A
Bank	370,459	17.51 %	222,181	10.50	211,601	10.00 %
Tier I Capital (to Risk Weighted Assets)						
Consolidated	354,055	16.73 %	179,867	8.50 %	N/A	N/A
Bank	352,032	16.64 %	179,861	8.50	169,281	8.00 %
Common Tier 1 (CET1)						
Consolidated	354,055	16.73 %	148,125	7.00 %	N/A	N/A
Bank	352,032	16.64 %	148,121	7.00	137,541	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated	354,055	10.20 %	138,790	4.00 %	N/A	N/A
Bank	352,032	10.15 %	138,763	4.00	173,454	5.00 %
As of December 31, 2022						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 338,185	16.68 %	212,932	10.50 %	N/A	N/A
Bank	336,866	16.61 %	212,915	10.50	202,777	10.00 %
Tier I Capital (to Risk Weighted Assets)						
Consolidated	324,297	15.99 %	172,374	8.50 %	N/A	N/A
Bank	322,978	15.93 %	172,360	8.50	162,221	8.00 %
Common Tier 1 (CET1)						
Consolidated	324,297	15.99 %	141,955	7.00 %	N/A	N/A
Bank	322,978	15.93 %	141,944	7.00	131,805	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated	324,297	9.57 %	135,485	4.00 %	N/A	N/A
Bank	322,978	9.54 %	135,446	4.00	169,307	5.00 %

Contractual Obligations

The following table presents supplemental information regarding total contractual obligations as of December 31, 2023:

	Payments Due by Period at December 31, 2023				
(Dollars in thousands)	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**	**Total**
Deposits without a stated maturity	$ 1,739,325	$ —	$ —	$ —	$ 1,739,325
Time deposits	956,685	34,626	301	—	991,612
FHLB advances	—	50,000	275,000	—	325,000
Operating lease liabilities	1,810	3,077	2,166	1,598	8,651
Total contractual obligations	$ 2,697,820	$ 87,703	$ 277,467	$ 1,598	$ 3,064,588

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in our consolidated balance sheet. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if we deem collateral is necessary upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. They are intended to be disbursed, subject to certain condition, upon request of the borrower.

The following table presents outstanding financial commitments whose contractual amount represents credit risks as of the dates indicated:

	December 31,	
(Dollars in thousands)	**2023**	**2022**
Commitments to extend credit	$ 68,083	$ 62,334
Standby letters of credit	4,908	6,303
Total off-balance sheet commitments	$ 72,991	$ 68,637

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified interest rate risk as our primary source of market risk.

Interest Rate Risk

Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

Our board of directors establishes broad policy limits with respect to interest rate risk. As part of this policy the asset liability committee, or ALCO, establishes specific operating guidelines within the parameters of the board of directors' policies. In general, the ALCO focuses on ensuring a stable and steadily increasing flow of net interest income through managing the size and mix of the balance sheet. The management of interest rate risk is an active process which encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Interest rate risk measurement is calculated and reported to the ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

Evaluation of Interest Rate Risk

We use income simulations, an analysis of core funding utilization, and economic value of equity (EVE) simulations as our primary tools in measuring and managing IRR. These tools are utilized to quantify the potential earnings impact of changing interest rates over a two year simulation horizon (income simulations) as well as identify expected earnings trends given longer term rate cycles (long term simulations, core funding utilizations, and EVE simulation). A standard gap report and funding matrix will also be utilized to provide supporting detailed information on the expected timing of cashflow and repricing opportunities.

There are an infinite number of potential interest rate scenarios, each of which can be accompanied by differing economic/political/regulatory climates; can generate multiple differing behavior patterns by markets, borrowers, depositors, etc.; and, can last for varying degrees of time. Therefore, by definition, interest rate risk sensitivity cannot be predicted with certainty. Accordingly, the Bank's interest rate risk measurement philosophy focuses on maintaining an appropriate balance between theoretical and practical scenarios; especially given the primary objective of the Bank's overall asset/liability management process is to facilitate meaningful strategy development and implementation.

Therefore, we model a set of interest rate scenarios capturing the financial effects of a range of plausible rate scenarios, the collective impact of which will enable the Bank to clearly understand the nature and extent of its sensitivity to interest rate changes. Doing so necessitates an assessment of rate changes over varying time horizons and of varying/sufficient degrees such that the impact of embedded options within the balance sheet are sufficiently examined.

We use a net interest income simulation model to measure and evaluate potential changes in our net interest income. We run three standard and plausible comparing current or flat rates with a +/- 200 basis point ramp in rates over 12 months. These rate scenarios are considered appropriate as they are neither too modest (e.g. +/- 100 basis points) or too extreme (e.g. +/- 400 basis points) given the economic and rate cycles which have unfolded in the last 25 years. This analysis also provides the foundation for historical tracking of interest rate risk. The impact of interest rate derivatives, such as interest rate swaps and caps, is included in the model.

Potential changes to our net interest income in hypothetical rising and declining rate scenarios calculated as of December 31, 2023, 2022 and 2021 are presented in the following table:

	Net Interest Income Sensitivity			
	12 Month Projection		24 Month Projection	
(Ramp in basis points)	+200	-200	+200	-200
December 31, 2023	(0.90)%	0.00 %	1.50 %	7.80 %
December 31, 2022	(1.60)%	2.50 %	21.60 %	12.90 %
December 31, 2021	(3.60)%	(1.20)%	(8.70)%	(10.30)%

We also model the impact of rate changes on our Economic Value of Equity, or EVE. We base the modeling of EVE based on interest rate shocks as shocks are considered more appropriate for EVE, which accelerates future interest rate risk into current capital via a present value calculation of all future cashflows from the bank's existing inventory of assets and liabilities. Our simulation model incorporates interest rate shocks of +/- 100, 200, 300 and 400 basis points. The results of the model for rate shakes of +/- 100 and 200 basis points are presented in the table below:

	Economic Value of Equity Sensitivity			
(Shock in basis points)	+200	+100	-100	-200
December 31, 2023	(15.00)%	(7.50)%	9.40 %	18.60 %
December 31, 2022	(11.90)%	(5.90)%	6.90 %	13.10 %
December 31, 2021	(3.60)%	(0.20)%	(11.90)%	(11.90)%

Our simulation model incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results such as: (i) the timing of changes in interest rates; (ii) shifts or rotations in the yield curve; (iii) re-pricing characteristics for market-rate-sensitive instruments; (iv) varying loan prepayment speeds for different interest rate scenarios; and (v) the overall growth and mix of assets and liabilities. Because of 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 our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of MetroCity Bankshares, Inc.
Doraville, Georgia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MetroCity Bankshares, Inc. and subsidiary (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Company's auditor since 2014.

Atlanta, Georgia
March 11, 2024

METROCITY BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	December 31, 2023	December 31, 2022
Assets:		
Cash and due from banks	$ 142,152	$ 150,964
Federal funds sold	2,653	28,521
Cash and cash equivalents	144,805	179,485
Equity securities	10,335	10,300
Securities available for sale (at fair value)	18,493	19,245
Loans held for sale	22,267	—
Loans, less allowance for credit losses of $ 18,112 and $ 13,888 , respectively	3,123,993	3,041,801
Accrued interest receivable	15,125	13,171
Federal Home Loan Bank stock	17,846	17,493
Premises and equipment, net	18,132	14,257
Operating lease right-of-use asset	8,472	8,463
Foreclosed real estate, net	1,466	4,328
SBA and USDA servicing asset, net	7,251	7,085
Mortgage servicing asset, net	1,273	3,973
Bank owned life insurance	70,957	69,130
Interest rate derivatives	31,781	28,781
Other assets	10,627	9,727
Total assets	$ 3,502,823	$ 3,427,239
Liabilities:		
Deposits:		
Non interest-bearing demand	$ 512,045	$ 611,991
Interest-bearing	2,218,891	2,054,847
Total deposits	2,730,936	2,666,838
Federal Home Loan Bank advances	325,000	375,000
Other borrowings	—	392
Operating lease liability	8,651	8,885
Accrued interest payable	4,133	2,739
Other liabilities	52,586	23,964
Total liabilities	3,121,306	3,077,818
Shareholders' Equity:		
Preferred stock, $ 0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $ 0.01 par value, 40,000,000 shares authorized, 25,205,506 and 25,169,709 shares issued and outstanding, respectively	252	252
Additional paid-in capital	45,699	45,298
Retained earnings	315,356	285,832
Accumulated other comprehensive income	20,210	18,039
Total shareholders' equity	381,517	349,421
Total liabilities and shareholders' equity	$ 3,502,823	$ 3,427,239

See accompanying notes to audited consolidated financial statements.

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except share and per share data)

	Years Ended December 31,		
	2023	2022	2021
Interest and dividend income:			
Loans, including fees	$ 181,883	$ 142,815	$ 107,851
Other investment income	10,767	4,330	885
Federal funds sold	177	75	5
Total interest income	192,827	147,220	108,741
Interest expense:			
Deposits	80,607	23,558	3,948
FHLB advances and other borrowings	10,741	4,051	624
Total interest expense	91,348	27,609	4,572
Net interest income	101,479	119,611	104,169
Provision for credit losses	(15)	(2,767)	6,929
Net interest income after provision for loan losses	101,494	122,378	97,240
Noninterest income:			
Service charges on deposit accounts	1,918	1,991	1,696
Other service charges, commissions and fees	5,657	9,725	14,437
Gain on sale of residential mortgage loans	—	2,017	—
Mortgage servicing income, net	(193)	(561)	(564)
Gain on sale of SBA loans	3,299	2,068	10,952
SBA servicing income, net	4,796	1,825	5,884
Other income	2,727	1,053	1,284
Total noninterest income	18,204	18,118	33,689
Noninterest expense:			
Salaries and employee benefits	29,304	30,502	30,112
Occupancy and equipment	4,893	4,857	5,028
Data processing	1,229	1,095	1,100
Advertising	614	606	541
Other expenses	11,686	12,219	11,529
Total noninterest expense	47,726	49,279	48,310
Income before provision for income taxes	71,972	91,217	82,619
Provision for income taxes	20,359	28,615	20,918
Net income	$ 51,613	$ 62,602	$ 61,701
Earnings per share:			
Basic	$ 2.05	$ 2.46	$ 2.41
Diluted	$ 2.02	$ 2.44	$ 2.39

See accompanying notes to audited consolidated financial statements.

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,		
	2023	**2022**	**2021**
Net income	$ 51,613	$ 62,602	$ 61,701
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available for sale arising during the period	590	(3,528)	(208)
Net changes in fair value of cash flow hedges	3,428	27,804	(286)
Tax effect	(1,847)	(6,069)	131
Other comprehensive income (loss)	2,171	18,207	(363)
Comprehensive income	$ 53,784	$ 80,809	$ 61,338

See accompanying notes to audited consolidated financial statements.

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except share and per share data)

	Common Stock		Additional		Accumulated Other	
	Number of Shares	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Comprehensive Income (Loss)**	**Total**
Balance, January 1, 2021	25,674,573	$ 257	$ 55,674	$ 188,705	$ 195	$ 244,831
Net income	—	—	—	61,701	—	61,701
Stock based compensation expense	—	—	1,427	—	—	1,427
Vesting of restricted stock	101,472	1	(1)	—	—	—
Repurchase of common stock	(310,809)	(3)	(5,541)	—	—	(5,544)
Other comprehensive loss	—	—	—	—	(363)	(363)
Dividends declared on common stock ($ 0.46 per share)	—	—	—	(11,829)	—	(11,829)
Balance, December 31, 2021	25,465,236	$ 255	$ 51,559	$ 238,577	$ (168)	$ 290,223
Net income	—	—	—	62,602	—	62,602
Stock based compensation expense	—	—	1,931	—	—	1,931
Vesting of restricted stock	101,097	1	(1)	—	—	—
Repurchase of common stock	(396,624)	(4)	(8,191)	—	—	
Other comprehensive income	—	—	—	—	18,207	18,207
Dividends declared on common stock ($ 0.60 per share)	—	—	—	(15,347)	—	(15,347)
Balance, December 31, 2022	25,169,709	$ 252	$ 45,298	$ 285,832	$ 18,039	$ 349,421
Net income	—	—	—	51,613	—	51,613
Stock based compensation expense	—	—	2,421	—	—	2,421
Vesting of restricted stock	136,171	1	(1)	—	—	—
Repurchase of common stock	(100,374)	(1)	(2,019)	—	—	(2,020)
Impact of adoption of new accounting standard, net of tax(1)	—	—	—	(3,801)	—	(3,801)
Other comprehensive income	—	—	—	—	2,171	2,171
Dividends declared on common stock ($ 0.72 per share)	—	—	—	(18,288)	—	(18,288)
Balance, December 31, 2023	25,205,506	$ 252	$ 45,699	$ 315,356	$ 20,210	$ 381,517

(1) *Represents the impact of the adoption of Accounting Standards Update ("ASU") No. 2016-13: CECL.*

See accompanying notes to audited consolidated financial statements.

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended December 31,		
	2023	2022	2021
Cash flow from operating activities:			
Net income	$ 51,613	$ 62,602	$ 61,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,687	3,875	2,809
Provision for credit losses	(15)	(2,767)	6,929
Stock based compensation expense	2,421	1,931	1,427
Unrealized (gains) losses recognized on equity securities	(35)	1,086	114
(Gain) loss on sale of foreclosed real estate	(547)	15	108
Writedown of foreclosed real estate	240	—	—
Deferred income tax expense (benefit)	1,010	(2,956)	(3,074)
Proceeds from sales of residential real estate loans	—	96,932	—
Gain on sale of residential mortgages	—	(2,017)	—
Origination of SBA loans held for sale	(73,005)	(32,077)	(127,062)
Proceeds from sales of SBA loans held for sale	76,304	34,145	138,014
Gain on sale of SBA loans	(3,299)	(2,068)	(10,952)
Increase in cash value of bank owned life insurance	(1,827)	(1,693)	(1,131)
Increase in accrued interest receivable	(1,954)	(2,119)	(381)
(Increase) decrease in SBA and USDA servicing rights	(166)	3,149	(591)
Decrease in mortgage servicing rights	2,700	3,774	5,244
(Increase) decrease in other assets	(2,264)	(7,698)	2,705
Increase (decrease) in accrued interest payable	1,394	2,535	(18)
Increase (decrease) in other liabilities	26,842	(21,955)	(10,409)
Net cash flow provided by operating activities	82,099	134,694	65,433
Cash flow from investing activities:			
Purchases of equity securities	—	—	(11,500)
Purchases of securities available for sale	—	—	(10,744)
Proceeds from maturities, calls or paydowns of securities available for sale	1,272	2,886	2,851
(Purchase) redemption of Federal Home Loan Bank stock	(353)	2,208	(13,554)
Increase in loans, net	(110,362)	(646,597)	(875,706)
Purchases of premises and equipment	(4,931)	(2,354)	(384)
Proceeds from sales of foreclosed real estate owned	4,109	41	986
Purchase of bank owned life insurance	—	(8,000)	(22,500)
Net cash flow used by investing activities	(110,265)	(651,816)	(930,551)
Cash flow from financing activities:			
Increase in deposits, net	64,098	403,818	783,131
Proceeds from Federal Home Loan Bank advances	425,000	525,000	640,000
Repayments of Federal Home Loan Bank advances	(475,000)	(650,000)	(250,000)
Decrease in other borrowings, net	(392)	(67)	(24)
Repurchase of common stock	(2,020)	(8,195)	(5,544)
Dividends paid on common stock	(18,200)	(15,290)	(11,792)
Net cash flow (used by) provided by financing activities	(6,514)	255,266	1,155,771

See accompanying notes to audited consolidated financial statements.

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended December 31,		
	2023	**2022**	**2021**
Net change in cash and cash equivalents	(34,680)	(261,856)	290,653
Cash and cash equivalents at beginning of period	179,485	441,341	150,688
Cash and cash equivalents at end of period	$ 144,805	$ 179,485	$ 441,341
Supplemental schedule of noncash investing and financing activities:			
Transfer of residential real estate loans to loans held for sale	$ 22,267	$ 94,915	$ —
Transfer of loan principal to foreclosed real estate, net of write-downs	$ 940	$ 766	$ 868
Initial recognition of operating lease right-of-use assets	$ 1,570	$ 1,761	$ 560
Initial recognition of operating lease liabilities	$ 1,570	$ 1,761	$ 560
Supplemental disclosures of cash flow information - Cash paid during the year for:			
Interest	$ 89,594	$ 25,074	$ 4,590
Income taxes	$ 17,973	$ 34,311	$ 23,506

See accompanying notes to audited consolidated financial statements.

METROCITY BANKSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

MetroCity Bankshares, Inc. (the "Company") was formed for the sole purpose of owning and operating its wholly owned subsidiary, Metro City Bank (the "Bank"). The Company acquired all of the outstanding common stock of the Bank in a holding company formation transaction on December 31, 2014. The Bank is a Georgia state-chartered bank and commenced operations in 2006. The Bank's main office is located in Doraville, Georgia, and it operates branches in Alabama, Florida, Georgia, New York, New Jersey, Texas and Virginia. The main emphasis of the Bank is on commercial banking and it offers such customary banking services as consumer and commercial checking accounts, savings accounts, certificates of deposit, commercial and consumer loans, including single family residential loans, money transfers and a variety of other banking services. The Company is subject to the regulations of Federal and State banking agencies and is periodically examined by them.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. The Company's accounting and reporting policies conform to accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the financial services industry. Certain prior period amounts have been reclassified to conform to the current year presentation. The Company has evaluated subsequent events for recognition and disclosure through the date these consolidated financial statements were issued.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Significant Group Concentrations of Credit Risk

A substantial portion of the Company's loan portfolio is to customers in the Atlanta, Georgia and New York, New York metropolitan areas. The ultimate collectability of a substantial portion of the portfolio is therefore susceptible to changes in the economic and market condition in and around this area.

The nature of the Company's business requires that it maintain amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Cash and Cash Equivalents

For purposes of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "cash and due from banks," which includes cash on hand, cash items in process of collection, and amounts due from banks. Cash flows from loans, federal funds sold, other borrowings, and deposits are reported net.

As of December 31, 2023, the Company had $ 29.6 million of restricted cash on deposit with the Federal Reserve Bank obtained from the counterparties of our interest rate derivative products (see Note 10) as collateral for the significant unrealized gains on our interest rate derivatives. This restricted cash amount was included in Cash and Due from Banks. As of December 31, 2022, no cash or cash equivalents balances were restricted.

Investment Securities

Debt securities that management has the intent and ability to hold to maturity are classified as securities held to maturity and are recorded at amortized cost. Securities not classified as securities held to maturity, are securities available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of the related tax effect. There were no held to maturity or trading securities at December 31, 2023 and 2022.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Realized gains and losses for securities classified as available for sale are included in earnings and are derived using the specific identification method for determining the amortized cost of securities sold.

Equity securities with readily determinable fair values (marketable) are measured at fair value, with changes in the fair value recognized as a component of Other Income in the Consolidated Statements of Income.

Allowance for Credit Losses – Available for Sale Securities

The impairment model for available for sale ("AFS") securities differs from the current expected credit loss ("CECL") approach utilized by held-to-maturity ("HTM") debt securities because AFS debt securities are measured at fair value rather than amortized cost. Although ASU 2016-13 replaced the legacy other-than-temporary impairment ("OTTI") model with a credit loss model, it retained the fundamental nature of the legacy OTTI model. One notable change from the legacy OTTI model is when evaluating whether credit loss exists, an entity may no longer consider the length of time fair value has been less than amortized cost. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. As of December 31, 2023, the Company determined that the unrealized loss positions in AFS securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded. See Note 2 below for further details.

Federal Home Loan Bank Stock

Federal Home Loan Bank (FHLB) stock represents an equity interest in a FHLB. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. The amount of FHLB stock held by the Company is required by the FHLB to be maintained and is based on membership requirements and terms of advance agreements. Such restricted equity securities without a readily determinable fair value are recorded at cost.

Loans Held for Sale

Mortgage loans intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans transferred to the held-for-sale category are transferred at the lower of cost or fair value, with charges made recognized as a realized loss on sale of loans. Increases in fair value are not recognized until the loans are sold.

Realized gains and losses on sales of loans are based upon specific identification of the loan sold and included in noninterest income. Loans held for sale are generally sold with servicing rights retained and recorded at fair value at sale as servicing assets.

The Company sometimes sells the guaranteed portion of SBA loans and retains the unguaranteed portion ("retained interest"). A portion of the premium on sale of SBA loans is recognized as gain on sale of loans at the time of the sale by allocating the carrying amount between the asset sold and the retained interest, including these servicing assets, based on their relative fair values. The remaining portion of the premium is recorded as a discount on the retained interest and is amortized over the remaining life of the loan as an adjustment to yield. The retained interest, net of any discount, are included in loans, less allowance for credit losses in the accompanying consolidated balance sheets.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal, adjusted for any charge-offs, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Interest on commercial, real estate loans and installment loans is credited to income on a daily basis based upon the principal amount outstanding. Loan origination fees, net of certain direct origination costs, are capitalized and recognized as an adjustment of the yield of the related loan.

Interest income on mortgage and commercial loans is discontinued and placed on non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Mortgage loans are charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer loans continue to accrue interest until they are charged off no later than 120 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated and individually classified loans.

When interest accrual is discontinued, all unpaid accrued interest is reversed against current interest income. All payments received while a loan is on nonaccrual status are applied against the principal balance of the loan. The Company does not recognize interest income while loans are on nonaccrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame.

Allowance for Credit Losses - Loans

Under the current expected credit loss ("CECL") model, the allowance for credit losses ("ACL") on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the loan is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL.

Expected credit losses are reflected in the allowance for credit losses through a charge to provision for credit losses. When the Company deems all or a portion of a loan to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. Loans are charged off against the ACL when management believes the collection of the principal is unlikely. Subsequent recoveries of previously charged off amounts, if any, are credited to the ACL when received.

The Company measures expected credit losses of loans on a collective (pool) basis, when the loans share similar risk characteristics. Depending on the nature of the pool of loans with similar risk characteristics, the Company uses the discounted cash flow ("DCF") method and a qualitative approach as discussed further below.

The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for loan-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions expected to exist through the contractual lives of the loans that are reasonable and supportable, to the identified pools of loans with similar risk characteristics for which the historical loss experience was observed. The Company's methodologies revert back to historical loss information on a straight-line basis over eight quarters when it can no longer develop reasonable and supportable forecasts.

The Company has identified the following pools of loans with similar risk characteristics for measuring expected credit losses:

Construction and development – Loans in this segment primarily include real estate development loans for which payment is derived from the sale of the property as well as construction projects in which the property will ultimately be used by the borrower. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial real estate – Loans in this segment are primarily income-producing properties. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management monitors the cash flows of these loans. This loan segment includes farmland loans.

Commercial and industrial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased customer spending, will have an effect on the credit quality in this segment.

Single family residential mortgages – Loans in this segment include loans for residential real estate. Loans in this segment are dependent on credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of this segment.

Consumer and other – Loans in this segment are made to individuals and are secured by personal assets, as well as loans for personal lines of credit and overdraft protection. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality in this segment.

Discounted Cash Flow Method

The Company uses the discounted cash flow method to estimate expected credit losses for each of its loan segments. The Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on benchmark peer data.

The Company uses regression analysis of peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. For all loan pools utilizing the DCF method, the Company uses national data including gross domestic product, unemployment rates and home price indices (residential mortgage loans only) depending on the nature of the underlying loan pool and how well that loss driver correlates to expected future losses.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over eight quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows ("NPV"). An ACL is established for the difference between the instrument's NPV and amortized cost basis.

Qualitative Factors

The Company also considers qualitative adjustments to the quantitative baseline discussed above. For example, the Company considers the impact of current environmental factors at the reporting date that did not exist over the period from which historical experience was used. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), changes in underwriting standards, changes in collateral value, experience and depth of lending staff, trends in delinquencies, and the volume and terms of loans.

Individually Analyzed Loans

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

Allowance for Unfunded Commitments

The Company records an allowance for credit losses on unfunded loan commitments, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's Consolidated Statements of Income. The ACL on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the CECL model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur. The allowance for unfunded commitments totaled $ 315,000 as of December 31, 2023 and is included in Other Liabilities on the Company's Consolidated Balance Sheets.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lesser of the outstanding loan balance or fair value of the property less selling costs at the date of foreclosure establishing a new cost basis. Any write down to fair value at the time of foreclosure is charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed real estate and subsequent adjustment to the value are expensed.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, computed principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements have a useful life equal to the shorter of useful life or lease term. Maintenance and repairs that do not extend the useful life of the premises and equipment are charged to expense. Expenditures for new or major improvements of premises and equipment (i.e. construction in process) are capitalized until placed in service and then depreciated over their estimated useful lives.

The useful lives of premises and equipment are as follows:

Asset Type	Useful Life
Building	40 years
Leasehold improvements	3- 20 years
Furniture, fixtures, and equipment	5- 7 years
Computer equipment	4- 5 years
Computer software	3 years

SBA and USDA Loan Servicing Rights

SBA and USDA Loan servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the loans between the loan servicing rights and the loans based on their relative fair values. Capitalized servicing rights are measured at fair value at each reporting date and changes in fair value are reported in earnings in the period they occur. Fair values are estimated using either an independent valuation or by discounted cash flows based on a current market interest rate.

Residential Mortgage Servicing Rights

When residential mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Residential mortgage servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Residential mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Residential mortgage servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of residential mortgage servicing rights is netted against loan servicing fee income.

Bank Owned Life Insurance (BOLI)

The Company has purchased life insurance on the lives of certain key officers and employees of the Company. The Company purchased these life insurance policies to generate income to offset the Company's cost of providing various employee benefits. BOLI is recorded at its cash surrender value, net of surrender charges and/or early termination charges that are probable at settlement. The increase in cash value is recorded as other income.

Interest Rate Derivatives

The Company may use interest rate swap and cap agreements to hedge various exposures or to modify interest rate characteristics of various financial instruments. The Company utilizes interest rate swap and cap agreements as part of its asset/liability management strategy to help manage its interest-rate risk position. Interest rate swaps are contracts in which a series of interest payments are exchanged over a prescribed time period. The notional amounts of the interest rate swap are correlated to match the underlying asset or liability and do not represent the amount exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The Company determines the effectiveness of cash flow hedges at the inception of the derivative contract based on the Company's intentions and belief as to the likely effectiveness as a hedge. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to the recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedge items, as well as the risk management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair value or cash flows of hedged items. The Company will discontinue the hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged items, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into income over the same periods in which the hedged transactions will affect income.

Stock Based Compensation Plan

The Company follows Financial Accounting Standards Board (FASB) ASC 718, *Compensation - Stock Compensation*, which requires all share-based payments to employees, including grants of employee stock options and restricted stock, to be recognized as compensation expense in the financial statements based on fair value. FASB ASC 718 requires recognition of expense equal to the fair value of the option or restricted stock share, determined using the calculated value method, over the vesting period of the option.

The fair value of stock options and warrants used to compute the recognized expense is estimated using the Black-Scholes option pricing model. This model requires input of subjective assumptions, including the expected price volatility of the underlying stock. Projected data related to the expected volatility and expected life of the stock option is based upon historical and other information. Changes in these subjective assumptions can materially affect the fair value estimates. Prior to becoming a public company in October 2019, FASB ASC 718 allowed non-public companies to use calculated value to determine the expected price volatility of underlying stock for use in the model. For options granted prior to 2019, the calculated value for the Company was obtained by determining the historical volatility of public companies in the Company's industry sector.

Income Taxes

The provision for income taxes is based on income and expense reported for financial statement purposes after the adjustment for permanent differences such as tax-exempt income. Deferred income tax assets and liabilities are determined using the balance sheet method, reflecting a net deferred tax asset or liability based on the tax effects of the temporary differences between the book and tax bases of assets and liabilities, giving recognition to changes in tax rates and laws. A net deferred tax asset is evaluated for realization, and reduced by a valuation allowance when determined it is more likely than not that the asset will not be fully realized.

In accordance with ASC 740-10 Income Taxes it is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of income taxes and to disclose the recognized interest and penalties, if material. Management has evaluated all tax positions that could have a significant effect on the financial statements and determined the Company had no uncertain tax positions at December 31, 2023 and 2022.

Earnings Per Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and cash flow hedges, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Loan Commitments and Related Financial Instruments

In the ordinary course of business, the Company has entered into off balance sheet financial instruments, which are not reflected in the financial statements and consist of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The Company uses the same credit policies for these off-balance-sheet financial instruments as it does for other instruments that are recorded in the financial statements.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Since no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters which will have a material effect on the financial statements.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *"Simplifying the Accounting for Income Taxes."* This ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 became effective for the Company on January 1, 2021 and did not have a significant impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04 , *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* This ASU provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not significantly impact our consolidated financial statements.

In January 2021, the FASB issued ASU 2021-01, *"Reference Rate Reform (Topic 848): Scope."* This ASU clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2021-01 did not significantly impact our consolidated financial statements.

In December 2022, the FASB issued ASU No. 2022-06, *"Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848."* This ASU extends the period of time preparers can utilize the reference rate reform relief guidance provided by ASU 2020-04 and ASU 2021-01, which are discussed above. ASU 2022-06, which was effective upon issuance, defers the sunset date of this prior guidance from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief guidance in Topic 848. The adoption of ASU 2022-06 did not significantly impact our consolidated financial statements.

In January 2023, the Company adopted ASU 2016-13, " *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*". This ASU significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaced the incurred loss approach with an expected loss model, referred to as the current expected credit loss ("CECL") model. The new standard applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for credit losses. In addition, under the new standard, entities are required to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 was effective for interim and annual reporting periods beginning after December 15, 2022. With its adoption, ASU 2016-13 provided for a modified retrospective transition by means of a cumulative effect adjustment to equity as of the beginning of the period in which the guidance was effective.

The Company adopted ASU 2016-13 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach. The adoption of this standard resulted in an increase to the allowance for credit losses on loans of $ 5.1 million and the creation of an allowance for unfunded commitments of $ 239,000 . These one-time cumulative adjustments resulted in a $ 3.8 million decrease to retained earnings, net of a $ 1.5 million increase to deferred tax assets.

For available for sale ("AFS") securities, the new CECL methodology replaced the other-than-temporary impairment model and required the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security, when a valuation decline was determined to be other-than-temporary. There was no financial impact related to this implementation since the credit risk associated with our securities portfolio was minimal. The Company has made a policy election to exclude accrued interest from the amortized cost basis of AFS securities.

In January 2023, the Company adopted ASU 2022-02, *"Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"*, which eliminated the accounting guidance for troubled debt restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty, unless those loans do not share the same risk characteristics with other loans in the portfolio. Provided that is not the case, these modifications are included in their respective cohort and the allowance for credit losses is estimated on a pooled basis consistent with the other loans with similar risk characteristics. See Note 3 below for further details.

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2023, the FASB issued ASU 2023-01, *"Leases (Topic 842): Common Control Arrangements."* This ASU requires entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. ASU 2023-01 also provides certain practical expedients applicable to private companies and not-for-profit organizations. ASU 2023-01 was effective for us on January 1, 2024 and its adoption is not expected to have a significant effect on our consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, *"Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative."* This ASU amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. ASU 2023-06 is not expected to have a significant impact on our consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09 , *"Income Taxes (Topic 740): Improvements to Income Tax Disclosures."* This ASU requires public business entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold, among other things. This ASU is effective for us on January 1, 2025, though early adoption is permitted. This ASU is not expected to have a significant impact on our consolidated financial statements.

The Company has further evaluated other Accounting Standards Updates issued during 2023 but does not expect updates other than those summarized above to have a material impact on the consolidated financial statements.

NOTE 2 – INVESTMENT SECURITIES

The amortized costs, gross unrealized gains and losses, and estimated fair values of securities available for sale as of December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government entities and agencies	$ 4,637	$ —	$ —	$ 4,637
States and political subdivisions	8,072	—	(1,290)	6,782
Mortgage-backed GSE residential	8,669	—	(1,595)	7,074
Total	$ 21,378	$ —	$ (2,885)	$ 18,493

	December 31, 2022			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government entities and agencies	$ 5,059	$ —	$ —	$ 5,059
States and political subdivisions	8,121	—	(1,718)	6,403
Mortgage-backed GSE residential	9,540	—	(1,757)	7,783
Total	$ 22,720	$ —	$ (3,475)	$ 19,245

The amortized costs and estimated fair values of investment securities available for sale at December 31, 2023, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investment securities that are not due at a single maturity are shown separately.

	Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ —	$ —
Due after one year but less than five years	5,877	5,858
Due after five years but less than ten years	—	—
Due in more than ten years	6,832	5,561
Mortgage-backed GSE residential	8,669	7,074
Total	$ 21,378	$ 18,493

Accrued interest receivable for securities available for sale totaled $ 115,000 and $ 114,000 as of December 31, 2023 and 2022, respectively. This accrued interest receivable is included in the “accrued interest receivable” line item on the Company’s Consolidated Balance Sheets.

As of December 31, 2023, the Company had securities pledged to the Federal Reserve Bank Discount Window with a carrying amount of $ 13.9 million. There were no securities pledged as of December 31, 2022 to secure borrowing lines, public deposits or repurchase agreements. There were no securities sold during 2023, 2022 and 2021.

Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized in the table below.

	December 31, 2023			
	Twelve Months or Less		Over Twelve Months	
(Dollars in thousands)	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions	$ —	$ —	$ 1,290	$ 6,782
Mortgage-backed GSE residential	—	—	1,595	7,074
Total	$ —	$ —	$ 2,885	$ 13,856

	December 31, 2022			
	Twelve Months or Less		Over Twelve Months	
(Dollars in thousands)	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions	$ 756	$ 3,556	$ 962	$ 2,847
Mortgage-backed GSE residential	48	541	1,709	7,242
Total	$ 804	$ 4,097	$ 2,671	$ 10,089

At December 31, 2023, the nineteen securities available for sale (11 municipal securities and 8 mortgage-backed securities) with an unrealized loss have depreciated 17.24 % from the Company's amortized cost basis. All of these securities have been in a loss position for greater than twelve months.

The Company does not believe that the securities available for sale that were in an unrealized loss position as of December 31, 2023 represent a credit loss impairment. As of December 31, 2023, there have been no payment defaults nor do we currently expect any future payment defaults. Furthermore, the Company does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Equity Securities

As of both December 31, 2023 and 2022, the Company had equity securities with carrying values totaling $ 10.3 million. The equity securities consist of our investment in a mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts.

During the years ended December 31, 2023, 2022 and 2021, we recognized an unrealized gain of $ 35,000 , an unrealized loss of $ 1.1 million and an unrealized loss of $ 114,000 , respectively, in net income on our equity securities. These unrealized gains/losses are recorded in Other Income on the Consolidated Statements of Income.

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Major classifications of loans at December 31, 2023 and 2022 are summarized as follows:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Construction and development	$ 23,262	$ 47,779
Commercial real estate	711,177	657,246
Commercial and industrial	65,904	53,173
Residential real estate	2,350,299	2,306,915
Consumer and other	319	216
Total loans receivable	3,150,961	3,065,329
Unearned income	(8,856)	(9,640)
Allowance for credit losses	(18,112)	(13,888)
Loans, net	$ 3,123,993	$ 3,041,801

In the normal course of business, the Company may sell and purchase loan participations to and from other financial institutions and related parties. Commercial loan participations are sold as needed to comply with the legal lending limits per borrower as imposed by regulatory authorities. The participations are sold without recourse and the Company imposes no transfer or ownership restrictions on the purchaser.

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this note. As of December 31, 2023 and 2022, accrued interest receivable for loans totaled $ 15.0 million and $ 13.1 million, respectively, and is included in the “accrued interest receivable” line item on the Company’s Consolidated Balance Sheets.

Allowance for Credit Losses

As previously mentioned in Note 1, the Company’s January 1, 2023 adoption of ASU 2016-13 resulted in a significant change to our methodology for estimating the allowance for credit losses since December 31, 2022. As a result of this adoption, the Company recorded a $ 5.1 million increase to the allowance for credit losses as a cumulative-effect adjustment on January 1, 2023.

A summary of changes in the allowance for credit losses by portfolio segment for years ended December 31, 2023, 2022 and 2021 is as follows:

	Year Ended December 31, 2023						
(Dollars in thousands)	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 124	$ 2,811	$ 1,326	$ 9,626	$ 1	$ —	$ 13,888
Impact of adopting ASU 2016-13	(79)	3,275	(307)	2,166	—	—	5,055
Charge-offs	—	(455)	(309)	—	—	—	(764)
Recoveries	—	5	20	—	—	—	25
Provision	1	1,240	(142)	(1,195)	4	—	(92)
Ending balance	$ 46	$ 6,876	$ 588	$ 10,597	$ 5	$ —	$ 18,112

(Dollars in thousands)	Year Ended December 31, 2022						
	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 100	$ 4,146	$ 4,989	$ 7,717	$ —	$ —	$ 16,952
Charge-offs	—	—	(390)	—	—	—	(390)
Recoveries	—	7	81	—	5	—	93
Provision	24	(1,342)	(3,354)	1,909	(4)	—	(2,767)
Ending balance	$ 124	$ 2,811	$ 1,326	$ 9,626	$ 1	$ —	$ 13,888

(Dollars in thousands)	Year Ended December 31, 2021						
	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 178	$ 5,161	$ 438	$ 4,350	$ 8	$ —	$ 10,135
Charge-offs	—	(67)	(64)	—	—	—	(131)
Recoveries	—	12	—	—	7	—	19
Provision	(78)	(960)	4,615	3,367	(15)	—	6,929
Ending balance	$ 100	$ 4,146	$ 4,989	$ 7,717	$ —	$ —	$ 16,952

Prior to the adoption of ASU 2016-13 on January 1, 2023, the Company calculated the allowance for credit losses under the incurred loss methodology. The following tables present, by portfolio segment, the balance in the allowance for credit losses disaggregated on the basis of the Company's impairment measurement method and the related unpaid principal balance in loans as of December 31, 2022.

(Dollars in thousands)	December 31, 2022						
	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for credit losses:							
Individually evaluated for impairment	$ —	$ 249	$ 465	$ —	$ —	$ —	$ 714
Collectively evaluated for impairment	124	2,562	861	9,626	1	—	13,174
Acquired with deteriorated credit quality	—	—	—	—	—	—	—
Total ending allowance balance	$ 124	$ 2,811	$ 1,326	$ 9,626	$ 1	$ —	$ 13,888
Loans:							
Individually evaluated for impairment	$ —	$ 23,767	$ 1,122	$ 5,037	$ —	$ —	$ 29,926
Collectively evaluated for impairment	47,567	631,031	51,989	2,294,960	216	—	3,025,763
Acquired with deteriorated credit quality	—	—	—	—	—	—	—
Total ending loans balance	$ 47,567	$ 654,798	$ 53,111	$ 2,299,997	$ 216	$ —	$ 3,055,689

Impaired Loans

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impaired loans were measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the estimated fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes were included in the allowance for credit losses.

Impaired loans as of December 31, 2022, by portfolio segment, are as follows. The recorded investment consists of the unpaid total principal balance plus accrued interest receivable

(Dollars in thousands) **December 31, 2022**	**Unpaid Total Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**
Construction and development	$ —	$ —	$ —	$ —	$ —
Commercial real estate	23,767	23,121	1,415	24,536	249
Commercial and industrial	1,122	155	997	1,152	465
Residential real estate	5,037	5,037	—	5,037	—
Total	$ 29,926	$ 28,313	$ 2,412	$ 30,725	$ 714

Collateral-Dependent Loans

Collateral-dependent loans are loans for which foreclosure is probable or loans for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The estimated credit losses for these loans are based on the collateral's fair value less selling costs. In most cases, the Company records a partial charge-off to reduce the loan's carrying value to the collateral's fair value less selling costs at the time of foreclosure. As of December 31, 2023, there were $ 11.9 million, $ 2.8 million and $ 4,000 of collateral-dependent loans which were secured by residential real estate, commercial real estate and equipment, respectively. The allowance for credit losses allocated to these loans as of December 31, 2023 was $ 282,000 .

Past Due and Nonaccrual Loans

A primary credit quality indicator for financial institutions is delinquent balances. Delinquencies are updated on a daily basis and are continuously monitored. Loans are placed on nonaccrual status as needed based on repayment status and consideration of accounting and regulatory guidelines. Nonaccrual balances are updated and reported on a daily basis.

The following summarizes the Company's past due and nonaccrual loans, by portfolio segment, as of December 31, 2023 and 2022:

(Dollars in thousands) **December 31, 2023**	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Accruing Greater than 90 Days**	**Total Accruing Past Due**	**Nonaccrual**	**Total Loans**
Construction and development	$ 22,568	$ —	$ —	$ —	$ —	$ 548	$ 23,116
Commercial real estate	702,564	3,752	1,005	—	4,757	991	708,312
Commercial and industrial	64,103	112	101	—	213	1,286	65,602
Residential real estate	2,315,285	15,073	2,541	—	17,614	11,857	2,344,756
Consumer and other	319	—	—	—	—	—	319
Total	$ 3,104,839	$ 18,937	$ 3,647	$ —	$ 22,584	$ 14,682	$ 3,142,105

(Dollars in thousands) **December 31, 2022**	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Accruing Greater than 90 Days**	**Total Accruing Past Due**	**Nonaccrual**	**Total Loans**
Construction and development	$ 47,567	$ —	$ —	$ —	$ —	$ —	$ 47,567
Commercial real estate	649,552	354	—	—	354	4,892	654,798
Commercial and industrial	52,485	310	—	180	490	136	53,111
Residential real estate	2,282,089	8,882	3,989	—	12,871	5,037	2,299,997
Consumer and other	216	—	—	—	—	—	216
Total	$ 3,031,909	$ 9,546	$ 3,989	$ 180	$ 13,715	$ 10,065	$ 3,055,689

The following table presents an analysis of nonaccrual loans with and without a related allowance for credit losses as of December 31, 2023:

(Dollars in thousands) **December 31, 2023**	**Nonaccrual Loans With a Related ACL**	**Nonaccrual Loans Without a Related ACL**	**Total Nonaccrual Loans**
Construction and development	$ —	$ 548	$ 548
Commercial real estate	234	757	991
Commercial and industrial	—	1,286	1,286
Residential real estate	—	11,857	11,857
Total	$ 234	$ 14,448	$ 14,682

All payments received while a loan is on nonaccrual status are applied against the principal balance of the loan. The Company does not recognize interest income while loans are on nonaccrual status.

Credit Quality Indicators

The Company utilizes a ten grade loan rating system for its loan portfolio as follows:

- Loans rated Pass – Loans in these categories have low to average risk. There are six loan risk ratings (grades 1-6) included in loans rated Pass.
- Loans rated Special Mention (grade 7) – Loans do not presently expose the Company to a sufficient degree of risk to warrant adverse classification, but does possess deficiencies deserving close attention.
- Loans rated Substandard (grade 8) – Loans are inadequately protected by the current sound worth and paying capability of the obligor or of the collateral pledged, if any.
- Loans rated Doubtful (grade 9) – Loans which have all the weaknesses inherent in loans classified Substandard, with the added characteristic that the weaknesses make collections or liquidation in full, or on the basis of currently known facts, conditions and values, highly questionable or improbable.
- Loans rated Loss (grade 10) – Loans classified Loss are considered uncollectible and such little value that there continuance as bankable assets is not warranted.

Loan grades are monitored regularly and updated as necessary based upon review of repayment status and consideration of periodic updates regarding the borrower's financial condition and capacity to meet contractual requirements.

The following table presents the loan portfolio's amortized cost by loan type, risk rating and year of origination as of December 31, 2023. There were no loans with a risk rating of Doubtful or Loss at December 31, 2023.

(Dollars in thousands)	Term Loan by Origination Year						Revolving	
December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Loans**	**Total Loans**
Construction and development								
Pass	$ 7,715	$ 13,273	$ 134	$ 1,187	$ —	$ 259	$ —	$ 22,568
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	548	—	—	—	—	548
Total construction and development	$ 7,715	$ 13,273	$ 682	$ 1,187	$ —	$ 259	$ —	$ 23,116
Commercial real estate								
Pass	$ 157,572	$ 197,590	$ 104,480	$ 80,124	$ 34,147	$ 115,147	$ 4,240	$ 693,300
Special Mention	—	—	—	1,925	—	—	—	1,925
Substandard	—	590	—	233	7,681	4,583	—	13,087
Total commercial real estate	$ 157,572	$ 198,180	$ 104,480	$ 82,282	$ 41,828	$ 119,730	$ 4,240	$ 708,312
Commercial real estate:								
Current period gross write offs	$ —	$ —	$ 224	$ —	$ —	$ 231	$ —	$ 455
Commercial and industrial								
Pass	$ 16,411	$ 13,324	$ 4,595	$ 3,192	$ 2,353	$ 3,141	$ 19,315	$ 62,331
Special Mention	—	—	—	—	211	1,201	—	1,412
Substandard	—	—	1,282	352	205	20	—	1,859
Total commercial and industrial	$ 16,411	$ 13,324	$ 5,877	$ 3,544	$ 2,769	$ 4,362	$ 19,315	$ 65,602
Commercial and industrial:								
Current period gross write offs	$ —	$ —	$ 142	$ —	$ 79	$ 88	$ —	$ 309
Residential real estate								
Pass	$ 300,773	$ 717,527	$ 833,840	$ 284,535	$ 60,356	$ 134,859	$ —	$ 2,331,890
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	357	1,421	2,474	1,382	7,232	—	12,866
Total residential real estate	$ 300,773	$ 717,884	$ 835,261	$ 287,009	$ 61,738	$ 142,091	$ —	$ 2,344,756
Consumer and other								
Pass	$ 319	$ —	$ —	$ —	$ —	$ —	$ —	$ 319
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total consumer and other	$ 319	$ —	$ —	$ —	$ —	$ —	$ —	$ 319
Total loans	$ 482,790	$ 942,661	$ 946,300	$ 374,022	$ 106,335	$ 266,442	$ 23,555	$ 3,142,105

During the year ended December 31, 2023, five construction and development revolving loans totaling $ 30.1 million were converted to commercial real estate term loans.

The following table presents the Company's loan portfolio by risk rating as of December 31, 2022:

(Dollars in thousands) **December 31, 2022**	**Construction and Development**	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer and Other**	**Total Loans**
Rating:						
Pass	$ 47,567	$ 628,165	$ 48,848	$ 2,292,568	$ 216	$ 3,017,364
Special Mention	—	3,677	3,897	—	—	7,574
Substandard	—	22,956	366	7,429	—	30,751
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	$ 47,567	$ 654,798	$ 53,111	$ 2,299,997	$ 216	$ 3,055,689

Loan Modifications to Borrowers Experiencing Financial Difficulty

In January 2023, the Company adopted ASU 2022-02, *"Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"*, which eliminated the accounting guidance for troubled debt restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty, unless those loans do not share the same risk characteristics with other loans in the portfolio. Provided that is not the case, these modifications are included in their respective cohort and the allowance for credit losses is estimated on a pooled basis consistent with the other loans with similar risk characteristics.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, payment deferrals, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023. No ne of the loan modifications below were past due or on nonaccrual status as of December 31, 2023.

(Dollars in thousands) **Year Ended December 31, 2023**	**Term Extension**	**Payment Deferral**	**Interest Rate Reduction**	**Total**	**% of Total Loans**
Construction and development	$ —	$ —	$ —	$ —	— %
Commercial real estate	—	—	12,347	12,347	1.74
Commercial and industrial	—	352	—	352	0.53
Residential real estate	—	—	—	—	—
Consumer and other	—	—	—	—	—
Total	$ —	$ 352	$ 12,347	$ 12,699	0.42 %

The following table presents the financial effect of the loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023.

(Dollars in thousands) **Year Ended December 31, 2023**	**Weighted/Average Months of Term Extension**	**Weighted/Average Payment Deferral**	**Weighted/Average Interest Rate Reduction**
Construction and development	—	$ —	— %
Commercial real estate	—	—	3.62
Commercial and industrial	—	16	—
Residential real estate	—	—	—
Consumer and other	—	—	—
Total	—	$ 16	3.62 %

No loan modifications made to borrowers experiencing financial difficulty defaulted during the year ended December 31, 2023. No charge-offs of previously modified loans were recorded during the year ended December 31, 2023.

Related Party Loans:

The Company conducts transactions with its directors and executive officers, including companies in which such officers or directors have beneficial interests. None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at December 31, 2023 or 2022.

The following table summarizes aggregate loan transactions with related parties for the years ended December 31, 2023 and 2022:

	December 31,	
(Dollars in thousands)	2023	2022
Beginning balance	$ 4,113	$ 8,327
New loans and principal advances	—	—
Repayments	(120)	(4,214)
Transactions due to changes in related parties	—	—
Ending balance	$ 3,993	$ 4,113

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
(Dollars in thousands)	2023	2022
Land	$ 2,604	$ 2,604
Building	7,703	7,703
Leasehold improvements	4,354	4,011
Furniture, fixtures and equipment	4,758	3,870
Computer equipment	2,230	1,994
Computer software	861	844
Construction in process	5,605	2,224
Premises and equipment, gross	28,115	23,250
Accumulated depreciation	(9,983)	(8,993)
Premises and equipment, net	$ 18,132	$ 14,257

Depreciation expense for premises and equipment totaled $ 1.1 million, $ 1.2 million and $ 1.2 million for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 5 – OPERATING LEASES

The Company has entered into various operating leases for certain branch locations with terms extending through October 2033. Generally, these leases have initial lease terms of ten years or less. Many of the leases have one or more renewal options which typically are for five years at the then fair market rental rates. We assessed these renewal options using a threshold of reasonably certain. For leases where we were reasonably certain to renew, those option periods were included within the lease term, and therefore, the measurement of the right-of-use (ROU) asset and lease liability. None of our leases included options to terminate the lease and none had initial terms of 12 months or less (i.e. short-term leases). Operating leases in which the Company is the lessee are recorded as operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets. The Company currently does not have any finance leases.

Operating lease ROU assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental collateralized borrowing rate provided by the FHLB at the lease commencement date. ROU assets are further adjusted for lease incentives, if any. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in occupancy expense in the Consolidated Statements of Income.

The components of lease cost for the years ended December 31, 2023, 2022 and 2021 were as follows:

	Year Ended		
(Dollars in thousands)	December 31, 2023	December 31, 2022	December 31, 2021
Operating lease cost	$ 1,990	$ 1,995	$ 2,158
Variable lease cost	179	164	188
Short-term lease cost	—	—	—
Sublease income	—	—	—
Total net lease cost	$ 2,169	$ 2,159	$ 2,346

Future maturities of the Company's operating lease liabilities are summarized as follows:

(Dollars in thousands) Year Ended :	Lease Liability
December 31, 2024	$ 2,081
December 31, 2025	1,849
December 31, 2026	1,605
December 31, 2027	1,344
December 31, 2028	1,020
After December 31, 2028	1,745
Total lease payments	9,644
Less: interest discount	(993)
Present value of lease liabilities	$ 8,651

(Dollars in thousands) Supplemental Lease Information	December 31, 2023
Weighted-average remaining lease term (years)	6.0
Weighted-average discount rate	3.55 %

	Year Ended December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases (cash payments)	$ 2,071	$ 1,859
Operating cash flows from operating leases (lease liability reduction)	$ 1,801	$ 1,598
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	$ 1,570	$ 1,761

The Company signed an agreement to lease space in Norcross, Georgia with an entity in which the Chairman of the Company serves as a managing member. The lease is a five year non-cancellable lease which expires in September 2028. During the years ended December 31, 2023, 2022 and 2021, $ 162,000 , $ 150,000 and $ 159,000 , respectively, in rents were paid under this lease. Management believes the terms of this lease are no less favorable to the Company than would have been achieved with an unaffiliated third party.

NOTE 6 – SBA AND USDA LOAN SERVICING

The Company sells the guaranteed portion of certain SBA and USDA loans it originates and continues to service the sold portion of the loan. The portion of the loans sold are not included in the financial statements of the Company. As of December 31, 2023 and 2022, the unpaid principal balances of serviced loans totaled $ 508.0 million and $ 465.1 million, respectively.

Activity for SBA and USDA loans servicing rights are as follows:

(Dollars in thousands)	For the Year Ended December 31, 2023	2022	2021
Beginning of period	$ 7,038	$ 10,091	$ 9,488
Change in fair value	213	(3,053)	603
End of period, fair value	$ 7,251	$ 7,038	$ 10,091

Fair value at December 31, 2023 and 2022 was determined using discount rates ranging from 8.66 % to 14.73 % and 8.21 % to 19.30 %, respectively, and prepayment speeds ranging from 7.29 % to 20.23 % and 13.12 % to 17.60 %, respectively, depending on the stratification of the specific right. Average default rates are based on the industry average for the applicable NAICS/SIC code.

The aggregate fair market value of the interest only strips included in SBA servicing assets was $ 0 and $ 47,000 at December 31, 2023 and 2022, respectively. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of fair value measurement, risk characteristics including product type and interest rate, were used to stratify the originated loan servicing rights.

NOTE 7 – RESIDENTIAL MORTGAGE LOAN SERVICING

Residential mortgage loans serviced for others are not reported as assets. The outstanding principal of these loans at December 31, 2023 and 2022 was $ 443.1 million and $ 526.7 million, respectively.

Activity for mortgage loan servicing rights and the related valuation allowance are as follows:

(Dollars in thousands)	Years Ended December 31,		
Mortgage loan servicing rights:	**2023**	**2022**	**2021**
Beginning of period	$ 3,973	$ 7,747	$ 12,991
Additions	—	760	—
Amortization expense	(2,700)	(4,697)	(5,722)
Valuation allowance	—	163	478
End of period, carrying value	$ 1,273	$ 3,973	$ 7,747

(Dollars in thousands)	Years Ended December 31,		
Valuation allowance:	**2023**	**2022**	**2021**
Beginning balance	$ —	$ 163	$ 641
Additions expensed	—	—	602
Reductions credited to operations	—	(163)	(1,080)
Direct write-downs	—	—	—
Ending balance	$ —	$ —	$ 163

The fair value of servicing rights was $ 6.3 million and $ 7.2 million at December 31, 2023 and 2022, respectively. Fair value at December 31, 2023 was determined by using a discount rate of 13.04 %, prepayment speeds of 16.16 %, and a weighted average default rate of 1.49 %. Fair value at December 31, 2022 was determined by using a discount rate of 12.56 %, prepayment speeds of 18.63 %, and a weighted average default rate of 1.29 %.

NOTE 8 – DEPOSITS

Deposit account balances as of December 31, 2023 and 2022 are summarized as follows:

(Dollars in thousands)	December 31, 2023		December 31, 2022	
Noninterest-bearing demand deposits	$	512,045	$	611,991
NOW accounts and savings		139,742		168,675
Money market		321,225		553,077
Brokered money market		766,312		523,687
Time deposits less than $250,000		504,714		417,775
Time deposits $250,000 or greater		486,898		391,633
Total deposits	$	2,730,936	$	2,666,838

Maturities of time deposits at December 31, 2023 are summarized as follows:

(Dollars in thousands) Year Ended December 31,		
2024	$	956,685
2025		34,377
2026		249
2027		242
2028		59
Total time deposits	$	991,612

At December 31, 2023 and 2022, overdraft demand deposits reclassified to loans totaled $ 319,000 and $ 216,000 , respectively.

The Company held related party deposits of approximately $ 10.2 million and $ 9.2 million at December 31, 2023 and 2022, respectively.

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES & OTHER BORROWINGS

Advances from the Federal Home Loan Bank (FHLB) at December 31, 2023 and 2022 are summarized as follows:

(Dollars in thousands)	December 31, 2023		December 31, 2022	
Convertible advance maturing February 13, 2026; fixed rate of 4.184 %	$	50,000	$	—
Convertible advance maturing October 26, 2027; fixed rate of 3.53 %		—		25,000
Convertible advance maturing January 25, 2028; fixed rate of 3.243 %		50,000		—
Convertible advance maturing February 14, 2028; fixed rate of 3.625 %		25,000		—
Convertible advance maturing June 23, 2028; fixed rate of 3.655 %		50,000		—
Convertible advance maturing November 8, 2028; fixed rate of 3.607 %		50,000		—
Convertible advance maturing November 8, 2028; fixed rate of 3.745 %		50,000		—
Convertible advance maturing November 14, 2028; fixed rate of 3.519 %		50,000		—
Convertible advance maturing June 16, 2032; fixed rate of 1.905 %		—		50,000
Convertible advance maturing June 23, 2032; fixed rate of 1.950 %		—		100,000
Convertible advance maturing August 6, 2032; fixed rate of 1.892 %		—		100,000
Convertible advance maturing October 26, 2032; fixed rate of 3.025 %		—		25,000
Convertible advance maturing May 12, 2037; fixed rate of 1.135 %		—		75,000
Total FHLB advances	$	325,000	$	375,000

The FHLB advances outstanding at December 31, 2023 all have a conversion feature that allows the FHLB to call the advances every three months ($ 100.0 million), six months ($ 50.0 million) or one year ($ 175.0 million). At December 31, 2023 and 2022, the Company had a line of credit with the FHLB, set as a percentage of total assets, with maximum borrowing capacity of $ 1.05 billion and $ 1.01 billion, respectively. The available borrowing amounts are collateralized by the Company's FHLB stock and pledged residential real estate loans, which totaled $ 2.32 billion and $ 2.29 billion at December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the Company had unsecured federal funds lines available with various financial institutions of approximately $ 47.5 million. These lines have various terms, rates and maturities. There were no advances outstanding on these lines at December 31, 2023 or 2022.

As of December 31, 2023 and 2022, the Company had Federal Reserve Discount Window funds available of approximately $ 433.2 million and $ 10.0 million, respectively, with no amounts outstanding at either date. The funds are collateralized by a pool of construction and development, commercial real estate and commercial and industrial loans totaling $ 604.0 million and $ 32.6 million as of December 31, 2023 and 2022, respectively.

The Company sells the guaranteed portion of certain SBA loans it originates and continues to service the sold portion of the loan. The Company sometimes retains an interest only strip or servicing fee that is considered to be more than customary market rates. An interest rate strip can result from a transaction when the market rate of the transaction differs from the stated rate on the portion of the loan sold.

The sold portion of SBA loans that satisfies at least one of the above provisions are considered secured borrowings and are included in other borrowings. Secured borrowings at December 31, 2023 and 2022 were $ 0 and $ 392,000, respectively.

NOTE 10 – INTEREST RATE DERIVATIVES

During 2021 and 2022, the Company entered into fourteen separate interest rate swap agreements with notional amounts totaling $ 800.0 million. Six of the interest rate swaps are two-year forward three-year term swaps (five-year total term) where cash settlements begin in October 2023, January 2024 or April 2024. Four of the interest rate swaps are two-year forward two-year term swaps (four-year total term) where cash settlements begin in November 2023 or April 2024. Two of the interest rate swaps are a one-year forward two-year term swap (three-year total term) and a one-year forward three-year term swap (four-year term total) where cash settlements began in May 2023 or July 2023. The two remaining interest rate swaps are 3-year spot swaps where cash settlements began in June 2022 and December 2022. The swap agreements were designated as cash flow hedges of our deposit accounts that are indexed to the Federal Funds Effective rate. The swaps are determined to be highly effective since inception and therefore no amount of ineffectiveness has been included in net income. The aggregate fair value of the swaps amounted to an unrealized gain of $ 29.7 million and $ 26.7 million and an unrealized loss of $ 476,000 and $ 779,000 at December 31, 2023 and December 31, 2022, respectively. These unrealized gains and losses are recorded in Interest Rate Derivatives and Other Liabilities on the Consolidated Balance Sheets. The Company expects the hedges to remain highly effective during the remaining terms of the swaps.

During October 2021, the Company entered into an interest rate cap agreement with a notional amount of $ 50.0 million and a cap rate of 2.50 %. This interest rate cap is a two-year forward three-year term (five-year total term) where cash settlements began on November 2023. The interest rate cap was designated as a cash flow hedge of our money market deposit accounts that are indexed to the Federal Funds Effective rate. The rate cap premium paid by the Company at inception ($ 619,000) is amortized on a straight line basis to deposit interest expense over the total term of the interest rate cap agreement. The fair value of the interest rate cap amounted to an unrealized gain of $ 2.1 million at both December 31, 2023 and 2022 and is recorded in Interest Rate Derivatives on the Consolidated Balance Sheets.

The Company is exposed to credit related losses in the event of the nonperformance by the counterparties to the interest rate swaps. The Company performs an initial credit evaluation and ongoing monitoring procedures for all counterparties and currently anticipates that all counterparties will be able to fully satisfy their obligation under the contracts. In addition, the Company may require collateral from counterparties in the form of cash deposits in the event that the fair value of the contracts are positive and such fair value for all positions with the counterparty exceeds the credit support thresholds specified by the underlying agreement. Conversely, the Company is required to post cash deposits as collateral in the event the fair value of the contracts are negative and are below the credit support thresholds. At December

31, 2023, the Company had $ 29.6 million of restricted cash obtained from the counterparties as collateral for the significant unrealized gains on our interest rate derivatives.

Summary information for the interest rate swaps designated as cash flow hedges is as follows:

(Dollars in thousands)	As of or for the Year Ended December 31, 2023	As of or for the Year Ended December 31, 2022
Notional Amounts	$ 800,000	$ 800,000
Weighted-average pay rate	2.28 %	2.28 %
Weighted-average receive rate	5.03 %	1.68 %
Weighted-average maturity	4.2 years	4.2 years
Weighted-average remaining maturity	2.4 years	3.4 years
Net interest income (expense)	$ 5,246	$ (163)

Summary information for the interest rate caps designated as cash flow hedges is as follows:

(Dollars in thousands)	As of or for the Year Ended December 31, 2023	As of or for the Year Ended December 31, 2022
Notional Amounts	$ 50,000	$ 50,000
Rate Cap Premiums	$ 350	$ 474
Cap Rate	2.50 %	2.50 %
Weighted-average maturity	5.0 years	5.0 years
Weighted-average remaining maturity	2.8 years	3.8 years
Net interest income (expense)	$ 139	$ (124)

NOTE 11 – INCOME TAXES

The components of income tax expense for the periods indicated were as follows:

	Years Ended December 31,		
(Dollars in thousands)	2023	2022	2021
Current tax provision:			
Federal	$ 13,522	$ 18,167	$ 18,914
State	5,827	13,404	5,078
Total current tax provision	19,349	31,571	23,992
Deferred tax provision:			
Federal	414	(1,482)	(2,246)
State	596	(1,474)	(828)
Total deferred tax provision (benefit)	1,010	(2,956)	(3,074)
Total provision for income taxes	$ 20,359	$ 28,615	$ 20,918

The following table presents a reconciliation of the recorded provision for income taxes to the amount of taxes computed by applying the applicable statutory Federal income tax rate for the periods indicated:

	Years Ended December 31,					
	2023		2022		2021	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Federal statutory tax rate	$ 15,102	21.0 %	$ 19,156	21.0 %	$ 17,350	21.0 %
Differences resulting from:						
State income taxes, net of federal benefit	5,074	7.1	9,425	10.3	3,262	3.9
Permanent book to tax differences	153	0.2	147	0.2	183	0.2
Other items, net	30	0.0	(113)	(0.1)	123	0.2
Provision for income taxes	$ 20,359	28.3 %	$ 28,615	31.4 %	$ 20,918	25.3 %

At December 31, 2023 and 2022, the Company's deferred tax assets and liabilities consisted of the following:

	December 31,	
(Dollars in thousands)	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 5,551	$ 4,104
Nonaccrual interest	69	44
Deferred loan fees	2,668	2,849
Lease liabilities under operating leases	2,606	2,626
Unrealized losses on securities available for sale	808	869
Other	843	1,588
Total gross deferred tax assets	12,545	12,080
Deferred tax liabilities:		
Deferred mortgage servicing fees	(192)	(587)
Deferred SBA servicing fees	(2,184)	(2,080)
Premises and equipment	(347)	(264)
Right-of-use assets under operating leases	(2,552)	(2,501)
Interest rate derivatives	(8,667)	(6,882)
Other	(864)	(1,377)
Total gross deferred tax liabilities	(14,806)	(13,691)
Net deferred tax liabilities	$ (2,261)	$ (1,611)

For the year ended December 31, 2021, the Company's income tax provision is impacted by the CARES Act and therefore, the applicable items have been taken into account, including the permitted delay in deposit of payroll taxes. There is no impact to the Company's income tax provision for the year ended December 31, 2023 or 2022.

During the year ended December 31, 2022, the Company purchased $ 12.0 million of Georgia Low Income Housing Credits. These tax credits will be utilized to reduce the Company's Georgia income tax liability. The Company utilized approximately $ 1.2 million of the tax credits in 2022 and expects to use $ 0.3 million of the tax credits in 2023 and the remaining $ 10.5 million will be utilized against the Company's Georgia income tax liability for the 2024 through 2027 tax years. The $ 10.5 million of remaining tax credits are recorded in Other Assets on the Consolidated Balance Sheets at December 31, 2023.

During the year ended December 31, 2022, the Company settled a New York State corporate income/franchise tax examination for the tax years ended December 31, 2017, 2018, and 2019. As a result of this audit, the Company recognized $ 1.8 million of income tax expense in 2022 for additional taxes and interest due to New York State, as well as New York City.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. Management believes n o valuation allowance is necessary against deferred tax assets as of December 31, 2023.

For the years ended December 31, 2023 and 2022, management believes there are no material amounts of uncertain tax position. Additionally, there were n o amounts of interest and penalties recognized for uncertain tax positions in the consolidated balance sheets as of December 31, 2023 or 2022 or on the consolidated statements of income for the years ended December 31, 2023, 2022 or 2021. The Company and its subsidiary are subject to U.S. federal income tax as well as various other state income taxes. The Company is no longer subject to examination by taxing authorities for years before 2020.

NOTE 12 – STOCK BASED COMPENSATION

The Company adopted the MetroCity Bankshares, Inc. 2018 Stock Option Plan (the "Prior Option Plan") effective as of April 18, 2018, and the Prior Option Plan was approved by the Company's shareholders on May 30, 2018. The Prior Option Plan provided for awards of stock options to officers, employees and directors of the Company. The Board of Directors of the Company determined that it was in the best interests of the Company and its shareholders to amend and restate the Prior Option Plan to provide for the grant of additional types of awards. Acting pursuant to its authority under the Prior Option Plan, the Board of Directors approved and adopted the MetroCity Bankshares, Inc. 2018 Omnibus Incentive Plan (the "2018 Incentive Plan"), which constitutes the amended and restated version of the Prior Option Plan. The Board of Directors has reserved 2,400,000 shares of Company common stock for issuance pursuant to awards granted under the 2018 Incentive Plan, any or all of which may be granted as nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance awards and other stock-based awards. In the event all or a portion of a stock award is forfeited, cancelled, expires, or is terminated before becoming vested, paid, exercised, converted, or otherwise settled in full, any unissued or forfeited shares again become available for issuance pursuant to awards granted under the 2018 Incentive Plan and do not count against the maximum number of reserved shares. In addition, shares of common stock deducted or withheld to satisfy tax withholding obligations will be added back to the share reserve and will again be available for issuance pursuant to awards granted under the plan. The 2018 Incentive Plan is administered by the Compensation Committee of our Board of Directors (the "Committee"). The determination of award recipients under the 2018 Incentive Plan, and the terms of those awards, will be made by the Committee. At December 31, 2023, 240,000 stock options had been granted and 774,437 shares of restricted stock had been issued under the 2018 Incentive Plan.

Stock Options

The Company did no t grant any stock options during the years ended December 31, 2023, 2022 and 2021. A summary of stock option activity for the years ended December 31, 2023, 2022 and 2021 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	240,000	$ 12.70		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at December 31, 2021	240,000	$ 12.70	6.55	$ 3,559
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at December 31, 2022	240,000	$ 12.70	5.55	$ 2,143
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at December 31, 2023	240,000	$ 12.70	4.55	$ 2,717

During the years ended December 31, 2023, 2022 and 2021, the Company recognized compensation expense for stock options of $ 0 , $ 0 and $ 238,000 , respectively. As of December 31, 2023 and 2022, all of the cost related to the outstanding stock options had been recognized.

Restricted Stock Units

The Company has periodically issued restricted stock units to its directors, executive officers and certain employees under the 2018 Incentive Plan. Compensation expense for restricted stock is based upon the grant date fair value of the shares and is recognized over the vesting period of the units. Shares of restricted stock units issued to officers and employees vest in equal annual installments on the first three anniversaries of the grant date. Shares of restricted stock units issued to directors vest 25 % on the grant date and 25 % on each of the first three anniversaries of the grant date.

A summary of restricted stock activity for the years ended December 31, 2023, 2022 and 2021 is presented below:

	Years Ended December 31,					
	2023		2022		2021	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares at beginning of year	177,399	$ 17.95	134,703	$ 13.86	169,779	$ 11.52
Granted	188,993	16.43	143,793	20.31	66,396	17.21
Vested	(136,171)	16.25	(101,097)	15.86	(101,472)	12.14
Forfeited	—	—	—	—	—	—
Nonvested shares at end of year	230,221	$ 17.71	177,399	$ 17.95	134,703	$ 13.86

During the years ended December 31, 2023, 2022 and 2021, the Company recognized compensation expense for restricted stock of $ 2.4 million, $ 1.9 million and $ 1.2 million, respectively. As of December 31, 2023 and 2022, there was $ 3.0 million and $ 2.3 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. As of December 31, 2023, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.1 years. The grant date fair value of shares vested during the years ended December 31, 2023 and 2022 was $ 2.2 million and $ 1.6 million, respectively.

NOTE 13 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) for the Company consists of changes in net unrealized gains/losses on investment securities available for sale and interest rate swap derivatives. The following tables present a summary of the accumulated comprehensive income (loss) balances, net of tax, as of December 31, 2023, 2022 and 2021.

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrealized Gain (Loss) on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2022	$ (2,606)	$ 20,645	$ 18,039
Current year changes, net of tax	529	1,642	2,171
Balance, December 31, 2023	$ (2,077)	$ 22,287	$ 20,210

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrealized Gain (Loss) on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2021	$ 40	$ (208)	$ (168)
Current year changes, net of tax	(2,646)	20,853	18,207
Balance, December 31, 2022	$ (2,606)	$ 20,645	$ 18,039

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrealized Gain (Loss) on Derivatives	Accumulated Other Comprehensive Income (Loss)

Balance, December 31, 2020	$ 195	$ —	$ 195
Current year changes, net of tax	(155)	(208)	(363)
Balance, December 31, 2021	$ 40	$ (208)	$ (168)

NOTE 14 – EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per common share for the periods indicated:

	Year Ended December 31,		
(Dollars in thousands except per share data)	**2023**	**2022**	**2021**
Basic earnings per share			
Net Income	$ 51,613	$ 62,602	$ 61,701
Weighted average common shares outstanding	25,205,489	25,409,654	25,572,005
Basic earnings per common share	$ 2.05	$ 2.46	$ 2.41
Diluted earnings per share			
Net Income	$ 51,613	$ 62,602	$ 61,701
Weighted average common shares outstanding for basic earnings per common share	25,205,489	25,409,654	25,572,005
Add: Dilutive effects of restricted stock and options	313,027	279,042	216,776
Average shares and dilutive potential common shares	25,518,516	25,688,696	25,788,781
Diluted earnings per common share	$ 2.02	$ 2.44	$ 2.39

There were no stock options or restricted stock excluded from the computation of diluted earnings per common share since they were antidilutive for the years ended December 31, 2023, 2022 and 2021.

NOTE 15 – REVENUE RECOGNITION

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, and investment securities, as well as revenue related to our loan servicing activities and revenue on bank owned life insurance, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of noninterest income are as follows:

Service charges on deposits: Income from service charges on deposits is within the scope of ASC 606. These include general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue on these types of fees are recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied. Service charges on deposits also include overdraft and nonsufficient funds fees. Overdraft fees are charged when a depositor has a draw on their account that has inadequate funds. All services charges on deposit accounts represent 1.2 % or less of total revenues in the years ended December 31, 2023, 2022 and 2021.

Other Service Charges, Commissions and Fees: Other service charges, commissions and fees are primarily comprised of mortgage origination related income, wire fees, interchange fees, and other service charges and fees. Mortgage origination related income, which makes up the majority of the other service charges, commissions and fees line item amounts reported on the Consolidated Statements of Income, consists of mortgage loan origination fees, underwriting fees, processing fees, and application fees. The Company's performance obligations for other service charges, commissions and fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Gain or loss on sale of OREO: This revenue stream is recorded when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. This revenue stream is within the scope of ASC 606 and is included in other income in noninterest income, but no significant revenues were generated from gains and losses on the sale and financing of OREO for the years ended December 31, 2023, 2022 and 2021.

Other revenue streams that are recorded in other income in noninterest income include revenue generated from letters of credit and income on bank owned life insurance. These revenue streams are either not material or out of scope of ASC 606.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not reflected in the Company's financial statements. These commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit. The Company does not anticipate any material losses as a result of these commitments and contingent liabilities.

Credit Related Commitments

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 financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Financial instruments where contract amounts represent credit risk as of and December 31, 2023 and 2022 include:

	December 31,	
(Dollars in thousands)	**2023**	**2022**
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 68,083	$ 62,334
Standby letters of credit	$ 4,908	$ 6,303

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit includes $ 68.1 million of unused lines of credit and $ 4.9 million to make loans as of December 31, 2023. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Company maintains cash deposits with a financial institution that during the year are in excess of the insured limitation of the Federal Deposit Insurance Corporation. If the financial institution were not to honor its contractual liability, the Company could incur losses. Management is of the opinion that there is not material risk because of the financial strength of the institution.

Other Commitments

The Bank has entered into employment agreements with its Executive Chairman, Chief Executive Officer, and President/Chief Lending Officer/Chief Operations Officer. Each employment agreement provides for a base salary, an incentive bonus based upon the Company's profitability, stock awards and other benefits commensurate with employment. The Bank may be obligated to make payments to each employee upon termination, with the timing and amount of the payment dependent upon the cause of termination. The agreements contain a contract term of 36 months, which is automatically extended one year annually unless notice is given by the employee or the Board of Directors.

Contingencies

The Company's nature of business is such that it ordinarily results in a certain amount of litigation. In the opinion of management for the Company, there is no litigation in which the outcome will have a material effect on the financial statements.

NOTE 17 – FAIR VALUE

Financial Instruments Measured at Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following presents the assets and liabilities as of December 31, 2023 and 2022 which are measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, and the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded:

	December 31, 2023				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets					
Recurring fair value measurements:					
Securities available for sale:					
Obligations of U.S. Government entities and agencies	$ 4,637	$ —	$ —	$ 4,637	
States and political subdivisions	6,782	—	6,782	—	
Mortgage-backed GSE residential	7,074	—	7,074	—	
Total securities available for sale	18,493	—	13,856	4,637	
Equity securities	10,335	10,335	—	—	
SBA servicing asset	7,251	—	—	7,251	
Interest rate derivatives	31,781	—	31,781	—	
	$ 67,860	$ 10,335	$ 45,637	$ 11,888	
Nonrecurring fair value measurements:					
Collateral-dependent loans	1,526	—	—	1,526	(148)
Foreclosed real estate, net	526	—	—	526	(239)
	$ 2,052	$ —	$ —	$ 2,052	$ (387)
Liabilities					
Recurring fair value measurements:					
Interest rate derivatives	$ 476	$ —	$ 476	$ —	

	December 31, 2022				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets					
Recurring fair value measurements:					
Securities available for sale:					
Obligations of U.S. Government entities and agencies	$ 5,059	$ —	$ —	$ 5,059	
States and political subdivisions	6,403	—	6,403	—	
Mortgage-backed GSE residential	7,783	—	7,783	—	
Total securities available for sale	19,245	—	14,186	5,059	
Equity securities	10,300	10,300	—	—	
SBA servicing asset	7,038	—	—	7,038	
Interest only strip	47	—	—	47	
Interest rate derivatives	28,781	—	28,781	—	
	$ 65,411	$ 10,300	$ 42,967	$ 12,144	
Nonrecurring fair value measurements:					
Impaired loans	$ 1,045	$ —	$ —	$ 1,045	$ 229
Liabilities					
Recurring fair value measurements:					
Interest rate derivatives	$ 779	$ —	$ 779	$ —	

The Company used the following methods and significant assumptions to estimate fair value:

Securities, Available for Sales: The Company carries securities available for sale at fair value. For securities where quoted prices are not available (Level 2), the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. The investments in the Company's portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets.

The Company owns certain SBA investments for which the fair value is determined using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active." This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades. Discounted cash flows are calculated by a third party using interest rate curves that are updated to incorporate current market conditions, including prepayment vectors and credit risk. During time when trading is more liquid, broker quotes are used to validate the model.

Equity Securities: The Company carries equity securities at fair value. Equity securities are measured at fair value using quoted market prices on nationally recognized and foreign securities exchanges (Level 1).

SBA Servicing Assets and Interest Only Strip : The fair values of the Company's servicing assets are determined using Level 3 inputs. All separately recognized servicing assets and servicing liabilities are initially measured at fair value initially and at each reporting date and changes in fair value are reported in earnings in the period in which they occur.

The fair values of the Company's interest-only strips are determined using Level 3 inputs. When the Company sells loans to others, it may hold interest-only strips, which is an interest that continues to be held by the transferor in the securitized receivable. It may also obtain servicing assets or assume servicing liabilities that are initially measured at fair value. Gain or loss on sale of the receivables depends in part on both (a) the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the interests that continue to be held by the transferor based on their relative fair value at the date of transfer, and (b) the proceeds received. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for interests that continue to be held by the transferor, so the Company generally estimates fair value based on the future expected cash flows estimated using management's best estimates of the key assumptions — credit losses and discount rates commensurate with the risks involved.

Interest Rate Derivatives: Exchange-traded derivatives are valued using quoted prices and are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Company's derivative positions are valued by third parties using their valuation models and confirmed by the Company. Since the model inputs can be observed in a liquid market and the models do not require significant judgement, such derivative contracts are classified within Level 2 of the fair value hierarchy. The Company's interest rate swap contracts (designated as cash flow hedges) are classified within Level 2.

Under certain circumstances we make adjustments to fair value for our assets and liabilities although they are not measured at fair value on an ongoing basis.

Collateral-dependent and impaired loans: Collateral-dependent loans are loans where repayment is expected to be provided solely by the sale of the underlying collateral and there are no other available and reliable sources of repayment. Prior to the adoption of ASU 2016-13, impaired loans were evaluated and valued at the time the loan was identified as impaired, at the lower of cost or fair value. Fair value for both collateral-dependent and impaired loans are measured based on the value of the collateral securing these loans and are classified at a Level 3 in the fair value hierarchy. Collateral may include real estate, or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Company. The value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Company if significant, or the equipment's net book value on the business' financial statements. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraisals may utilize a single valuation approach or a combination or approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Appraised values are reviewed by management using historical knowledge, market considerations, and knowledge of the client and client's business.

Changes in level 3 fair value measurements

The table below presents a reconciliation of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2023, 2022 and 2021:

(Dollars in thousands)	Obligations of U.S. Government Entities and Agencies	SBA Servicing Asset	Interest Only Strip	Liabilities
Fair value, January 1, 2023	$ 5,059	$ 7,038	$ 47	$ —
Total gain (loss) included in income	—	213	(47)	—
Settlements	—	—	—	—
Prepayments/paydowns	(422)	—	—	—
Transfers in and/or out of level 3	—	—	—	—
Fair value, December 31, 2023	$ 4,637	$ 7,251	$ —	$ —
Fair value, January 1, 2022	$ 6,949	$ 10,091	$ 143	$ —
Total loss included in income	—	(3,053)	(96)	—
Settlements	—	—	—	—
Prepayments/paydowns	(1,890)	—	—	—
Transfers in and/or out of level 3	—	—	—	—
Fair value, December 31, 2022	$ 5,059	$ 7,038	$ 47	$ —
Fair value, January 1, 2021	$ 9,306	$ 9,488	$ 155	$ —
Total gain (loss) included in income	—	603	(12)	—
Settlements	—	—	—	—
Prepayments/paydowns	(2,357)	—	—	—
Transfers in and/or out of level 3	—	—	—	—
Fair value, December 31, 2021	$ 6,949	$ 10,091	$ 143	$ —

There were no gains or losses included in earnings for securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods presented above. The only activity for these securities were prepayments. There were no purchases, sales, or transfers into and out of Level 3. The following table presents quantitative information about recurring Level 3 fair value measures at December 31, 2023 and 2022:

	Valuation Technique	Unobservable Input	General Range
December 31, 2023			
Recurring:			
Obligations of U.S. Government entities and agencies	Discounted Cash Flows	Discount Rate	4 %- 6 %
SBA servicing asset and interest only strip	Discounted Cash Flows	Prepayment speed	7.29 %- 20.23 %
		Discount rate	8.66 %- 14.73 %
Nonrecurring:			
Collateral-dependent loans	Appraisal value less estimated selling costs	Estimated selling costs	6 %
Foreclosed real estate	Appraisal value less estimated selling costs	Estimated selling costs	6 %
December 31, 2022			
Recurring:			
Obligations of U.S. Government entities and agencies	Discounted Cash Flows	Discount Rate	3 %- 5 %
SBA servicing asset and interest only strip	Discounted Cash Flows	Prepayment speed	13.12 %- 17.60 %
		Discount rate	8.21 %- 19.30 %
Nonrecurring:			
Impaired loans	Appraisal value less estimated selling costs	Estimated selling costs	6 %

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2023 and 2022 are as follows:

	Carrying	Estimated Fair Value at December 31, 2023			
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash, due from banks, and federal funds sold	$ 144,805	$ —	$ 144,805	$ —	$ 144,805
Investment securities	28,828	10,335	13,856	4,637	28,828
Federal Home Loan Bank stock	17,846	—	—	—	N/A
Loans held for sale	22,267	—	22,267	—	22,267
Loans, net	3,123,993	—	—	2,982,789	2,982,789
Accrued interest receivable	15,125	—	101	15,024	15,125
SBA servicing assets	7,251	—	—	7,251	7,251
Mortgage servicing assets	1,273	—	—	6,344	6,344
Interest rate derivatives	31,781	—	31,781	—	31,781
Financial Liabilities:					
Deposits	2,730,936	—	2,729,024	—	2,729,024
Federal Home Loan Bank advances	325,000	—	322,075	—	322,075
Accrued interest payable	4,133	—	4,133	—	4,133
Interest rate derivatives	476	—	476	—	476

(Dollars in thousands)	Carrying Amount	Estimated Fair Value at December 31, 2022			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash, due from banks, and federal funds sold	$ 179,485	$ —	$ 179,485	$ —	$ 179,485
Investment securities	29,545	10,300	14,186	5,059	29,545
Federal Home Loan Bank stock	17,493	—	—	—	N/A
Loans, net	3,041,801	—	—	2,999,520	2,999,520
Accrued interest receivable	13,171	—	98	13,073	13,171
SBA servicing assets	7,038	—	—	7,038	7,038
Interest only strips	47	—	—	47	47
Mortgage servicing assets	3,973	—	—	7,209	7,209
Interest rate derivatives	28,781	—	28,781	—	28,781
Financial Liabilities:					
Deposits	2,666,838	—	2,658,837	—	2,658,837
Federal Home Loan Bank advances	375,000	—	376,575	—	376,575
Other borrowings	392	—	392	—	392
Accrued interest payable	2,739	—	2,739	—	2,739
Interest rate derivatives	779	—	779	—	779

NOTE 18 – REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer of 2.50 % above the adequately capitalized risk-based capital ratios. Management believes as of December 31, 2023, the Company and Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The actual capital amounts (in thousands) and ratios of the Company and Bank are presented in the following table:

(Dollars in thousands)	Actual		Minimum Capital Required - Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥
As of December 31, 2023						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 372,482	17.60 %	222,188	10.5 %	N/A	N/A
Bank	370,459	17.51 %	222,181	10.5	211,601	10.0 %
Tier I Capital (to Risk Weighted Assets)						
Consolidated	354,055	16.73 %	179,867	8.5 %	N/A	N/A
Bank	352,032	16.64 %	179,861	8.5	169,281	8.0 %
Common Tier 1 (CET1)						
Consolidated	354,055	16.73 %	148,125	7.0 %	N/A	N/A
Bank	352,032	16.64 %	148,121	7.0	137,541	6.5 %
Tier 1 Capital (to Average Assets)						
Consolidated	354,055	10.20 %	138,790	4.0 %	N/A	N/A
Bank	352,032	10.15 %	138,763	4.0	173,454	5.0 %
As of December 31, 2022						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 338,185	16.68 %	212,932	10.5 %	N/A	N/A
Bank	336,866	16.61 %	212,915	10.5	202,777	10.0 %
Tier I Capital (to Risk Weighted Assets)						
Consolidated	324,297	15.99 %	172,374	8.5 %	N/A	N/A
Bank	322,978	15.93 %	172,360	8.5	162,221	8.0 %
Common Tier 1 (CET1)						
Consolidated	324,297	15.99 %	141,955	7.0 %	N/A	N/A
Bank	322,978	15.93 %	141,944	7.0	131,805	6.5 %
Tier 1 Capital (to Average Assets)						
Consolidated	324,297	9.57 %	135,485	4.0 %	N/A	N/A
Bank	322,978	9.54 %	135,446	4.0	169,307	5.0 %

The sole source of funds available to pay stockholder dividends is from the Company's earnings. Bank regulatory authorities impose restrictions on the amount of dividends that may be declared by the Company. Further restrictions could result from a review by regulatory authorities of the Company's capital adequacy. For the years ended December 31, 2023, 2022 and 2021, $ 18.3 million, $ 15.3 million and $ 11.8 million in common dividends were declared and paid, respectively. During 2023, the Bank could, without prior approval, declare dividends of approximately $ 25.9 million.

NOTE 19 – OTHER EXPENSES

Significant components of other expenses for the years ended December 31, 2023, 2022, and 2021 are as follows:

(Dollars in thousands)	December 31, 2023	2022	2021
Miscellaneous loan related	$ 1,648	3,052	3,223
FDIC insurance	1,583	1,226	956
Professional fees	1,522	1,307	1,058
Bank security	913	1,037	1,084
Phone and data service	830	1,052	816
Director fees	617	565	455
Other	4,573	3,980	3,937
Total other expenses	$ 11,686	12,219	$ 11,529

NOTE 20 – CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

Financial statements of MetroCity Bankshares, Inc. (parent company only) are as follows:

Condensed Balance Sheets

(Dollars in thousands)	December 31, 2023	2022
Assets:		
Cash and due from banks*	$ 2,416	$ 1,625
Investment in bank subsidiary*	379,494	348,102
Other assets	8	7
Total assets	$ 381,918	$ 349,734
Liabilities:		
Accrued expenses and other liabilities	$ 401	$ 313
Total liabilities	401	313
Shareholders' equity:		
Preferred stock	—	—
Common stock	252	252
Additional paid-in-capital	45,699	45,298
Retained earnings	315,356	285,832
Accumulated other comprehensive (loss) income	20,210	18,039
Total shareholders' equity	381,517	349,421
Total liabilities shareholders' equity	$ 381,918	$ 349,734

* Eliminated in consolidation.

Condensed Statements of Income

(Dollars in thousands)	Years Ended December 31, 2023	2022	2021
Income:			
Dividends receive from bank subsidiary*	$ 21,287	$ 15,347	$ 11,829
Interest income*	20	43	46
Total income	21,307	15,390	11,875
Expenses:			
Intercompany expenses*	108	108	107
Other expenses	187	178	181
Total expenses	295	286	288
Income before taxes and equity in undistributed income of subsidiary	21,012	15,104	11,587
Income tax expense	—	93	—
Income before equity in undistributed income of subsidiary	21,012	15,011	11,587
Equity in undistributed income of subsidiary*	30,601	47,591	50,114
Net Income	$ 51,613	$ 62,602	$ 61,701

* Eliminated in consolidation.

Condensed Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	$ 51,613	$ 62,602	$ 61,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary	(30,601)	(47,591)	(50,114)
(Increase) decrease in other assets	(1)	366	7
(Decrease) increase in accrued expenses and other liabilities	—	(269)	2
Net cash provided by operating activities	21,011	15,108	11,596
Cash flows from operating activities:			
Net cash (used) provided by investing activities	—	—	—
Cash flows from financing activities:			
Repurchase of common stock	(2,020)	(8,195)	(5,544)
Dividends paid on common stock	(18,200)	(15,290)	(11,792)
Net cash used by financing activities	(20,220)	(23,485)	(17,336)
Net decrease in cash and cash equivalents	791	(8,377)	(5,740)
Cash and cash equivalents, beginning of year	1,625	10,002	15,742
Cash and cash equivalents, end of year	$ 2,416	$ 1,625	$ 10,002

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2023. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2023.

Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the financial statements. No matter how well designed, internal control over financial reporting has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on this assessment management has determined that, as of December 31, 2023, the Company's internal control over financial reporting is effective based on the specified criteria.

This Annual Report does not include an attestation report from our registered public accounting firm regarding our internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit emerging growth companies, which we are, to provide only Management's Annual Report on Internal Control over Financial Reporting in this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(e) and 15d-15(f) under the Exchange Act) during the fourth quarter ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company is continually monitoring and assessing changes in processes and activities to determine any potential impact on the design and operating effectiveness of internal controls over financial reporting.

Limitations on the Effectiveness of Controls

The Company's management recognizes that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, within the Company have been detected.

Item 9B. Other Information

During the fourth quarter of 2023, none of our other executive officers or directors adopted Rule 10b5-1 trading plans and none of our directors or executive officers terminated a Rule 10b5-1 trading plan or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevents Inspections

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required in Part III, Item 10 of this Annual Report will be under the headings “Proposal 1—Election of Directors,” “Current Executive Officers,” “Corporate Governance and the Board of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement for the 2024 Annual Meeting of Shareholders, incorporated herein by reference.

Item 11. Executive Compensation

The information required in Part III, Item 11 of this Annual Report will be under the headings “Executive Compensation and Other Matters” and “Corporate Governance and the Board of Directors” in the Company’s definitive proxy statement for the 2024 Annual Meeting of Shareholders, incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table provides information as of December 31, 2023 regarding stock-based compensation awards outstanding and available for future grants under the Company’s equity compensation plans.

	(A)	(B)	(C)
	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))
Equity compensation plans approved by shareholders	240,000	$12.70	1,356,838
Equity compensation plans not approved by shareholders	—	—	—
Total	240,000	12.70	1,356,838

The remaining information required in Part III, Item 12 of this Annual Report will be under the heading “Beneficial Ownership of the Company’s Common Stock by Management and Principal Shareholders of the Company” in the Company’s definitive proxy statement for the 2024 Annual Meeting of Shareholders, incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required in Part III, Item 13 of this Annual Report will be under the headings “Certain Relationships and Related Person Transactions” and “Corporate Governance and the Board of Directors” in the Company’s definitive proxy statement for the 2024 Annual Meeting of Shareholders, incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required in Part III, Item 14 of this Annual Report will be under the heading “Proposal 2 – Ratification of the Appointment of Independent Registered Public Accounting Firm” in the Company’s definitive proxy statement for the 2024 Annual Meeting of Shareholders, incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements (Part II - Item 8. Financial Statements and Supplementary Data):

(i) Report of Independent Registered Public Accounting Firm (PCAOB ID 173)

(ii) Consolidated Balance Sheets at December 31, 2023 and 2022

(iii) Consolidated Statements of Income for the Years Ended December 31, 2023, 2022 and 2021

(iv) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2023, 2021 and 2021

(v) Consolidated Statements of Shareholder’s Equity for the Years Ended December 31, 2023, 2022 and 2021

(vi) Consolidated Statements of Cash Flows for the Years Ended December 31, 2023, 2022 and 2021

(vii) Notes to the Consolidated Financial Statements

(2) Financial Statement Schedules: All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the Consolidated Financial Statements or the Notes thereto.

(3) Exhibits: Included in schedule below.

(b) Exhibits:

Exhibit No.	Description of Exhibit
3.1	Restated Articles of Incorporation of MetroCity Bankshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1 filed September 4, 2019 (File No. 333-233625))
3.2	Amended and Restated Bylaws of MetroCity Bankshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form S-1 filed September 4, 2019 (File No. 333-233625))
4.1	Description of Capital Stock of MetroCity Bankshares, Inc.
10.1	Amended and Restated Employment Agreement, dated August 21, 2019, by and between Metro City Bank and Nack Paek (incorporated by reference to Exhibit 10.1 to the Company’s Registration Statement on Form S-1 filed September 4, 2019 (File No. 333-233625))*
10.2	Amended and Restated Employment Agreement, dated August 21, 2019, by and between Metro City Bank and Farid Tan (incorporated by reference to Exhibit 10.2 to the Company’s Registration Statement on Form S-1 filed September 4, 2019 (File No. 333-233625))*
10.3	Amended and Restated Employment Agreement, dated August 21, 2019, by and between Metro City Bank and Howard Kim (incorporated by reference to Exhibit 10.3 to the Company’s Registration Statement on Form S-1 filed September 4, 2019 (File No. 333-233625))*

10.5	MetroCity Bankshares, Inc. 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 filed September 4, 2019 (File No. 333-233625))*
21.1	Subsidiaries of MetroCity Bankshares, Inc.
23.1	Consent of Crowe LLP
24.1	Power of Attorney contained on the signature pages of this 2022 Annual Report on Form 10-K and incorporated herein by reference
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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
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
97	Incentive Compensation Recovery ("Clawback") Policy
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page has been formatted in Inline XBRL and contained within the Inline XBRL Instance Document in Exhibit 101

* Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the section 13 or 15(d) 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.

METROCITY BANKSHARES, INC.

Date: March 11, 2024	By: /s/ Nack Y. Paek Nack Y. Paek Chairman and Chief Executive Officer (Principal Executive Officer)
Date: March 11, 2024	By: /s/ Lucas Stewart Lucas Stewart Chief Financial Officer (Principal Financial and Accounting Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Nack Y. Paek and Lucas Stewart, with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully as to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in their capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Nack Y. Paek Nack Y. Paek	Chairman; Chief Executive Officer (principal executive officer)	March 11, 2024
/s/ Farid Tan Farid Tan	President and Director	March 11, 2024
/s/ Frank Glover Frank Glover	Director	March 11, 2024
/s/ William J. Hungeling William J. Hungeling	Director	March 11, 2024
/s/ Howard Hwasaeng Kim Howard Hwasaeng Kim	Director	March 11, 2024
/s/ Francis Lai Francis Lai	Director	March 11, 2024
/s/ Don Leung Don Leung	Director	March 11, 2024
/s/ Feiying Lu Feiying Lu	Director	March 11, 2024
/s/ Young Park Young Park	Director	March 11, 2024
/s/ Ajit Patel Ajit Patel	Director	March 11, 2024
/s/ Frank S. Rhee Frank S. Rhee	Director	March 11, 2024
/s/ Sam Sang-Koo Shim Sam Sang-Koo Shim	Director	March 11, 2024

Exhibit 4.1

DESCRIPTION OF CAPITAL STOCK

The following description summarizes the terms of our common stock and preferred stock but does not purport to be complete, and it is qualified in its entirety by reference to the applicable provisions of federal law governing bank holding companies, Georgia law and our articles of incorporation and bylaws. Our articles of incorporation and bylaws, as amended, are incorporated by reference as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2023 of which this Exhibit 4.1 is a part. As used in this Exhibit 4.1, the terms “the Company,” “we”, “us” and “our” refer only to MetroCity Bankshares, Inc. and not to any existing or future subsidiaries of MetroCity Bankshares, Inc.

General

Our articles authorize the issuance of up to 40,000,000 shares of common stock, par value of one cent ($0.01) per share, and up to 10,000,000 shares of preferred stock, par value of one cent ($0.01) per share. At December 31, 2023, we had issued and outstanding 25,205,506 shares of our common stock, and no shares of preferred stock.

Common Stock

Each share of common stock has the same rights, privileges and preferences as every other share of common stock, and there is no preemptive, conversion, redemption rights or sinking fund provisions applicable to our common stock. The designations and powers, preferences and rights and the qualifications, limitations or restrictions of the common stock are described below.

Dividend Rights. Subject to the rights of preferred stock we may use in the future, each share of common stock will participate equally in dividends, which are payable when and as declared by our board of directors.

Liquidation and Dissolution. After the return of all funds to depositors and the payment of creditors and after distribution in full of the preferential amounts to be distributed to the holders of all classes and series of stock entitled thereto or the holders of capital notes, if any, in the event of a voluntary or involuntary liquidation, dissolution or winding up of the corporation, as provided for in the Financial Institutions Code of Georgia and the Georgia Business Corporation Code, the holders of the common stock shall be entitled to receive all our remaining assets.

Voting Rights. Each share of common stock entitles the holder to one vote on all matters submitted to a vote of common shareholders, including the election of directors. There is no cumulative voting in the election of directors. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter will be the act of the shareholders, except for the election of directors. In the election of directors, directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at any meeting where a quorum is present.

Absence of Preemptive Rights. Our common stock does not have preemptive rights or other rights to subscribe for additional shares.

Stock Exchange Listing. Our common stock is listed on the Nasdaq Global Select Market under the symbol “MCBS.”

Preferred Stock

Upon authorization of our board of directors, we may issue shares of one or more series of our preferred stock from time to time. Our board of directors may, without any action by holders of common stock (subject to Nasdaq shareholder approval rules) and except as may be otherwise provided in the terms of any series of preferred stock of which there are shares outstanding, adopt resolutions to designate and establish a new series of preferred stock.

Upon establishing such a series of preferred stock, the board will determine the number of shares of preferred stock of that series that may be issued and the rights and preferences of that series of preferred stock. The rights of any series of preferred stock may include, among others:

- general or special voting rights;
- preferential liquidation rights;
- preferential cumulative or noncumulative dividend rights;
- redemption or put rights; and
- conversion or exchange rights.

We may issue shares of, or rights to purchase shares of, one or more series of our preferred stock that have been designated from time to time, the terms of which might:

- adversely affect voting or other rights evidenced by, or amounts otherwise payable with respect to, the common stock or other series of preferred stock;
- discourage an unsolicited proposal to acquire us; or
- facilitate a particular business combination involving us.

Any of these actions could have an anti-takeover effect and discourage a transaction that some or a majority of our shareholders might believe to be in their best interests or in which our shareholders might receive a premium for their stock over our then market price.

Anti-Takeover Considerations and Special Provisions of Our Articles, Bylaws and Georgia Law

Authorized but Unissued Capital Stock. At December 31, 2023, we had 12,350,847 shares of authorized but unissued shares of common stock. We also have 10,000,000 shares of authorized but unissued shares of preferred stock, and our board of directors may authorize the issuance of one or more series of preferred stock without shareholder approval (subject to Nasdaq shareholder approval rules). These shares could be used by our board of directors to make it more difficult or to discourage an attempt to obtain control of us through a merger, tender offer, proxy contest or otherwise.

Number and Classification of Directors. Our articles of incorporation and bylaws provide that the number of directors shall be fixed from time to time exclusively by the board of directors pursuant to a resolution adopted by the board of directors, but in no event shall the number of directors be less than five (5) nor more than twenty-five (25). The board of directors is divided into three classes so that each director serves for a term expiring at the third succeeding annual meeting of shareholders after their election with each director to hold office until his or her successor is duly elected and qualified. The classification of directors, together with the provisions in the articles of incorporation and bylaws described below that limit the ability of shareholders to remove directors and that permit the remaining directors to fill any vacancies on the board of directors, have the effect of making it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders may be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable, and three meetings, rather than one, would be required to replace the entire board.

Limitation on Right to Call a Special Meeting of Shareholders. Our bylaws provide that special meetings of shareholders may only be called by our Chairman of the Board, our Chief Executive Officer, our President or by the affirmative vote of our board of directors.

Advance Notice Provisions. Our bylaws provide an advance notice procedure for shareholder proposals to be brought before a meeting of our shareholders and for nominations by shareholders of candidates for election as directors at an annual meeting or a special meeting at which directors are to be elected. Subject to any other applicable requirements, only such business may be conducted at a meeting of shareholders as has been brought before the meeting by, or at the direction of, our board of directors, or by a shareholder who has given to our Secretary timely written notice in proper form, of the shareholder's intention to bring that business before the meeting. The presiding officer at such meeting has the authority to make such determinations. Only persons who are selected and recommended by our board of directors, or the committee of our board of directors designated to make nominations, or who are nominated by a shareholder who has given timely written notice, in proper form, to the Secretary prior to a meeting at which directors are to be elected will be eligible for election as directors.

To be timely, notice of nominations or other business to be brought before any meeting must be delivered to, or mailed or received by, the Secretary by the ninetieth (90th) day, and not earlier than the one hundred twentieth (120th) day, prior to the anniversary date of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is called for a date more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice must be delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to the date of such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to the date of such annual meeting.

The notice of any shareholder proposal or nomination for election as director must set forth various information required under the bylaws. The person submitting the notice of nomination and any person acting in concert with such person must provide, among other things, the name and address under which they appear on our books (if they so appear) and the class and number of shares of our capital stock that are beneficially owned by them.

Filling of Board Vacancies; Removals. Any vacancies in our board of directors and any directorships resulting from any increase in the number of directors may be filled by a majority of the remaining directors even if the number of directors then in office is less than a quorum.

New or Amendment of the Bylaws. New bylaws may be adopted or the bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote at any annual or special meeting of the shareholders or by the board of directors at any regular or special meeting of the board of directors; provided, however, that if such action is to be taken at a meeting of the shareholders, notice of the general nature of the proposed change in the bylaws must be given in the notice of the meeting.

Voting Provisions. Our articles provide for a heightened voting threshold to consummate a change in control transaction, such as a merger, the sale of substantially all of our assets or other similar transaction. Accordingly, we will not be able to consummate a change in control transaction or sell all or substantially all of our assets without obtaining the affirmative vote of the holders of shares of our capital stock having at least two-thirds (2⁄3) of the issued and outstanding shares of the Company entitled to vote.

Elimination of Liability and Indemnification. Our articles of incorporation provide that a director of the Company will not incur any personal liability to us or our shareholders for monetary damages for certain breaches of fiduciary duty as a director. A director's liability, however, is not eliminated with respect to (i) any appropriation, in violation of his or her duties, of any business opportunity of the Company, (ii) acts or omissions which involve intentional misconduct or a knowing violation of law, (iii) any transaction from which the director derived an improper personal benefit, or, (iv) any unlawful distributions under certain provisions of state law. Our articles of incorporation and bylaws also provide, among other things, for the indemnification of our directors, officers and agents, and authorize our board of directors to pay expenses incurred by, or to satisfy a judgment or fine rendered or levied against, such agents in connection with any personal legal liability incurred by the individual while acting for us within the scope of his or her employment (subject to certain limitations). We have obtained director and officer liability insurance covering all of our and our subsidiary bank's officers and directors.

Exhibit 21.1

SUBSIDIARIES OF METROCITY BANKSHARES, INC.

Subsidiary	Ownership	State of Incorporation
Metro City Bank	Wholly owned subsidiary of MetroCity Bankshares, Inc.	Georgia

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-234165) of MetroCity Bankshares, Inc. of our report dated March 11, 2024 relating to the consolidated financial statements of MetroCity Bankshares Inc. appearing in this Annual Report on Form 10-K of MetroCity Bankshares, Inc. for the year ended December 31, 2023.

/s/ Crowe LLP

Atlanta, Georgia
March 11, 2024

Exhibit 31.1

METROCITY BANKSHARES, INC.
CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nack Paek, certify that:

1. I have reviewed this Annual Report on Form 10-K of MetroCity Bankshares, 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(s) 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(s) 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.

Dated: March 11, 2024

/s/ Nack Y. Paek
Nack Y. Paek
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

METROCITY BANKSHARES, INC.
CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lucas Stewart, certify that:

1. I have reviewed this Annual Report on Form 10-K of MetroCity Bankshares, 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(s) 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(s) 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.

Dated: March 11, 2024

/s/ Lucas Stewart
Lucas Stewart
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION 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 Annual Report of MetroCity Bankshares, Inc. (the “Corporation”) on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Nack Paek, Chief Executive Officer of the Corporation, 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) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of and for the periods covered in the Report.

Dated: March 11, 2024

/s/ Nack Y. Paek
Nack Y. Paek
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION 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 Annual Report of MetroCity Bankshares, Inc. (the “Corporation”) on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lucas Stewart, Chief Financial Officer of the Corporation, 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) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of and for the periods covered in the Report.

Dated: March 11, 2024

/s/ Lucas Stewart
Lucas Stewart
Chief Financial Officer
(Principal Financial Officer)

Exhibit 97

METROCITY BANKSHARES, INC.
INCENTIVE COMPENSATION RECOVERY POLICY

1.0 General

1.1 MetroCity Bankshares, Inc. (the "Company") has adopted this Incentive Compensation Recovery Policy (the "Policy") in accordance with the applicable listing standards of The Nasdaq Stock Market ("Nasdaq") and Rule 10D-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). To the extent this Policy is in any manner deemed inconsistent with such listing standards, this Policy shall be treated as retroactively amended to be compliant with such listing standards.

1.2 Each Executive Officer (as defined herein) shall be required to sign and return to the Company the Acknowledgement Form attached hereto as Appendix B.

1.3 The effective date of this Policy is October 2, 2023 (the "Effective Date").

2.0 Definitions

The following words and phrases shall have the following meanings for purposes of this Policy:

2.1 Accounting Restatement. An "Accounting Restatement" means any accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement).

2.2 Board. The "Board" means the Board of Directors of the Company.

2.3 Compensation Committee. The "Compensation Committee" means the Compensation Committee of the Board.

2.4 Erroneously Awarded Compensation. "Erroneously Awarded Compensation" is the amount of Incentive-Based Compensation Received that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid. For Incentive-Based Compensation based on stock price or total stockholder return (TSR), where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement: (i) the amount shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was Received; and (ii) the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

2.5 Executive Officer. "Executive Officer" means the current or former officers identified as executive officers by the Company in the Company's filings with the SEC pursuant to Item 401(b) of Regulation S-K and the officers required to file reports under Section 16 of the Exchange Act.

2.6 Financial Reporting Measure. A “Financial Reporting Measure” is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measure that is derived wholly or in part from such measure. Stock price and TSR (and any measures that are derived wholly or in part from stock price or TSR) are also Financial Reporting Measures. A Financial Reporting Measure need not be presented within the Company’s financial statements or included in a filing with the SEC.

2.7 Incentive-Based Compensation. The term “Incentive-Based Compensation” means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Please refer to Appendix A to this Policy for a list of examples of Incentive-Based Compensation.

2.8 Received. Incentive-Based Compensation is deemed “Received” in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

2.9 SEC. “SEC” means the United States Securities and Exchange Commission.

3.0 Statement of Policy

3.1 In the event that the Company is required to prepare an Accounting Restatement, the Company will recover reasonably promptly the amount of all Erroneously Awarded Compensation Received by a person:

i. After beginning service as an Executive Officer;

ii. Who served as an Executive Officer at any time during the performance period for that Incentive-Based Compensation;

iii. While the Company has a listed class of securities listed on Nasdaq; and

iv. During the three completed fiscal years immediately preceding the date that the Company is required to prepare the Accounting Restatement and any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years. For purposes of this Policy, a transition period between the last day of the Company’s previous fiscal year and the first day of its new fiscal year that comprises a period of nine to twelve months would be deemed a completed fiscal year.

3.2 Notwithstanding the foregoing, this Policy shall only apply to Incentive-Based Compensation Received on or after the Effective Date.

3.3 The Company’s obligation to recover Erroneously Awarded Compensation pursuant to this Policy is not dependent on when the restated financial statements are filed.

3.4 For purposes of determining the relevant recovery period under this Policy, the date that the Company is required to prepare an Accounting Restatement is the earliest to occur of: (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.

4.0 Certain Exceptions

4.1 The Company must recover Erroneously Awarded Compensation in compliance with this Policy except to the extent that the conditions of paragraphs (i), (ii) or (iii) in this Section 4.1 are met, and the Compensation Committee, or in the absence of such a committee, a majority of the independent directors serving on the Board, has determined that recovery would be impracticable.

i. The direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company shall make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to Nasdaq.

ii. Recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impractical to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company shall obtain an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation, and must provide such opinion to Nasdaq.

iii. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

5.0 No Indemnification

5.1 The Company shall not indemnify any Executive Officer or former Executive Officer against the loss of Erroneously Awarded Compensation pursuant to this Policy.

6.0 Public Disclosures

6.1 The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the U.S. Federal securities laws, including the disclosure required by the applicable SEC filings.

7.0 Application to Other Persons

7.1 In addition to the Executive Officers and former Executive Officers, this Policy shall apply to any other employee of the Company or its subsidiaries designated by the Compensation Committee or the Board as a person covered by this Policy by notice to the employee ("Other Covered Person").

7.2 Unless otherwise determined by the Compensation Committee or the Board, this Policy shall apply to an Other Covered Person as if such individual was an Executive Officer during the relevant periods described in Section 3.0.

7.3 The Compensation Committee or the Board may, in its discretion, limit recovery of Erroneously Awarded Compensation from an Other Covered Person to situations in which an Accounting Restatement was caused or contributed to by the Other Covered Person's fraud, willful misconduct or gross negligence.

7.4 In addition, the Compensation Committee or the Board shall have discretion as to (i) whether to seek to recover Erroneously Awarded Compensation from an Other Covered Person, (ii) the amount of the Erroneously Awarded Compensation to be recovered from an Other Covered Person, and (iii) the method of recovering any such Erroneously Awarded Compensation from an Other Covered Person. In exercising such discretion, the Compensation Committee or the Board may take into account such considerations as it deems appropriate, including whether the assertion of a claim may violate applicable law or prejudice the interests of the Company in any related proceeding or investigation.

8.0 Interpretation; Enforcement

8.1 The Compensation Committee shall have full authority to interpret and enforce this Policy to the fullest extent permitted by law.

8.2 The Compensation Committee shall determine, in its sole discretion, the appropriate means to seek recovery of any Erroneously Awarded Compensation, which may include, without limitation: (i) requiring cash reimbursement; (ii) seeking recovery or forfeiture of any gain realized on the vesting, exercise, settlement, sale, transfer or other disposition of any equity-based awards; (iii) offsetting the amount to be recouped from any compensation otherwise owed by the Company to the Executive Officer; (iv) canceling outstanding vested or unvested equity awards; or (v) taking any other remedial and recovery action permitted by law, as determined by the Compensation Committee.

8.3 The Compensation Committee shall determine the repayment schedule for any Erroneously Awarded Compensation in a manner that complies with the "reasonably promptly" requirement set forth in Section 3.1 hereof. Such determination shall be consistent with any applicable legal guidance, by the SEC, judicial opinion or otherwise. The determination with respect to "reasonably promptly" recovery may vary from case to case and the Compensation Committee is authorized to adopt additional rules to further describe what repayment schedules satisfies this requirement.

8.4 To the extent an Executive Officer, former Executive Officer or Other Covered Person refuses to pay to the Company any Erroneously Awarded Compensation, the Company shall have the right to sue for repayment or, to the extent legally permitted, to enforce such person's obligation to make payment by withholding unpaid or future compensation.

8.5 Any determination by the Compensation Committee or the Board with respect to this Policy shall be final, conclusive, and binding on all interested parties.

9.0 Non-Exclusivity

9.1 Nothing in this Policy shall be viewed as limiting the right of the Company or the Compensation Committee to pursue recoupment under or as provided by the Company's plans, awards, policies or agreements or the applicable provisions of any law, rule or regulation (including, without limitation, Section 304 of the Sarbanes-Oxley Act of 2002).

10.0 Policy Controls

10.1 If the requirement to recover Erroneously Awarded Compensation is triggered under this Policy, then, in the event of any actual or alleged conflict between the provisions of this Policy and a similar clause or provision in any of the Company's plans, awards, policies or agreements, this Policy shall be controlling and determinative; provided that, if such other plan, award, policy or agreement provides that a greater amount of compensation shall be subject to clawback, the provisions of such other plan, award, policy or agreement shall apply to the amount in excess of the amount subject to clawback under this Policy.

11.0 Amendment

11.1 The Compensation Committee may amend this Policy, provided that any such amendment does not cause this Policy to violate applicable listing standards of Nasdaq or Rule 10D-1 under the Exchange Act.

APPENDIX A

Examples of Incentive-Based Compensation

Examples of compensation that constitutes Incentive-Based Compensation for purposes of this Policy include, but are not limited to, the following:

- Non-equity incentive plan awards earned based wholly or in part on satisfying a Financial Reporting Measure performance goal.
- Bonuses paid from a "bonus pool," the size of which is determined based wholly or in part on satisfying a Financial Reporting Measure performance goal.
- Other cash awards based wholly or in part on satisfying a Financial Reporting Measure performance goal.
- Restricted stock, restricted stock units, performance share units, stock options, and stock appreciation rights that are granted or become vested based wholly or in part on satisfying a Financial Reporting Measure performance goal.
- Proceeds received upon the sale of shares acquired through an incentive plan that were granted or vested based wholly or in part on satisfying a Financial Reporting Measure performance goal.

Examples of compensation that does not constitute Incentive-Based Compensation for purposes of this Policy include the following:

- Salary or salary increases for which the increase is not contingent upon achieving any Financial Reporting Measure performance goal.
- Bonuses paid solely at the discretion of the Compensation Committee or Board that are not paid from a bonus pool, the size of which is determined based wholly or in part on satisfying a Financial Reporting Measure performance goal.
- Bonuses paid solely upon satisfying one or more subjective standards (e.g., demonstrated leadership) and/or completion of a specified employment period.
- Non-equity incentive plan awards earned solely upon satisfying one or more strategic measures (e.g., consummating a merger or divestiture) or operational measures (e.g., opening a specified number of stores, completion of a project, or increase in market share).
- Equity awards for which the grant is not contingent upon achieving any Financial Reporting Measure performance goal and vesting is contingent solely upon completion of a specified employment period and/or attaining one or more non-Financial Reporting Measures.

APPENDIX B

METROCITY BANKSHARES, INC.
ACKNOWLEDGEMENT OF INCENTIVE COMPENSATION RECOVERY POLICY

By my signature below, I acknowledge and agree that:

- I have received and reviewed MetroCity Bankshares, Inc. Incentive Compensation Recovery Policy (the “Policy”) and am fully bound by and subject to the terms of the Policy; and

- I will abide by all of the terms of the Policy during and after my employment with the Company, including, without limitation, by promptly repaying or returning to the Company any Erroneously Awarded Compensation (as defined in the Policy) to the extent required by, and in a manner consistent with, the Policy.

Signature: ______________________________
Name (printed): ______________________________
Date: ______________________________

If you have specific questions regarding this Policy please contact the Company’s Chief Compliance Officer.