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

FORM 10-Q

(Mark One)
☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2024

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______ to _______

Commission File Number 001-39068

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

Georgia (State or other jurisdiction of incorporation)	**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

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

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

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

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

Emerging growth company ☒

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

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

As of November 1, 2024, the registrant had 25,331,916 shares of common stock, par value $0.01 per share, issued and outstanding.

METROCITY BANKSHARES, INC.
Quarterly Report on Form 10-Q
September 30, 2024

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2024 (Unaudited)	December 31, 2023
Assets:		
Cash and due from banks	$ 278,752	$ 142,152
Federal funds sold	12,462	2,653
Cash and cash equivalents	291,214	144,805
Equity securities	10,568	10,335
Securities available for sale	18,206	18,493
Loans held for sale	4,598	22,267
Loans, less allowance for credit losses of $ 18,589 and $18,112, respectively	3,069,237	3,123,993
Accrued interest receivable	15,667	15,125
Federal Home Loan Bank stock	20,251	17,846
Premises and equipment, net	18,158	18,132
Operating lease right-of-use asset	7,171	8,472
Foreclosed real estate, net	1,515	1,466
SBA and USDA servicing asset	7,309	7,251
Mortgage servicing asset, net	1,296	1,273
Bank owned life insurance	72,670	70,957
Interest rate derivatives	18,895	31,781
Other assets	12,451	10,627
Total assets	$ 3,569,206	$ 3,502,823
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 552,472	$ 512,045
Interest-bearing	2,170,648	2,218,891
Total deposits	2,723,120	2,730,936
Federal Home Loan Bank advances	375,000	325,000
Operating lease liability	7,295	8,651
Accrued interest payable	3,593	4,133
Other liabilities	53,013	52,586
Total liabilities	$ 3,162,021	$ 3,121,306
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, 25,331,916 and 25,205,506 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	253	252
Additional paid-in capital	47,481	45,699
Retained earnings	348,343	315,356
Accumulated other comprehensive income	11,108	20,210
Total shareholders' equity	407,185	381,517
Total liabilities and shareholders' equity	$ 3,569,206	$ 3,502,823

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest and dividend income:				
Loans, including fees	$ 50,336	$ 45,695	$ 150,980	$ 134,516
Other investment income	3,417	2,979	9,175	7,500
Federal funds sold	80	35	144	140
Total interest income	53,833	48,709	160,299	142,156
Interest expense:				
Deposits	19,602	21,736	61,442	58,916
FHLB advances and other borrowings	3,942	2,819	10,771	7,883
Total interest expense	23,544	24,555	72,213	66,799
Net interest income	30,289	24,154	88,086	75,357
Provision for credit losses:				
Provision for loan losses	653	(434)	414	(853)
Provision for unfunded commitments	(71)	53	(100)	56
Provision for credit losses	582	(381)	314	(797)
Net interest income after provision for credit losses	29,707	24,535	87,772	76,154
Noninterest income:				
Service charges on deposit accounts	531	490	1,510	1,403
Other service charges, commissions and fees	1,915	1,478	5,100	3,618
Gain on sale of residential mortgage loans	526	—	1,925	—
Mortgage servicing income, net	422	(85)	1,758	(232)
Gain on sale of SBA loans	1,083	244	2,134	3,267
SBA servicing income, net	1,231	270	3,287	3,472
Other income	907	260	2,028	1,964
Total noninterest income	6,615	2,657	17,742	13,492
Noninterest expense:				
Salaries and employee benefits	8,512	6,864	23,930	20,333
Occupancy and equipment	1,430	1,272	4,118	3,525
Data processing	311	300	958	928
Advertising	145	143	474	454
Other expenses	3,262	2,961	9,573	8,571
Total noninterest expense	13,660	11,540	39,053	33,811
Income before provision for income taxes	22,662	15,652	66,461	55,835
Provision for income taxes	5,961	4,224	18,192	15,569
Net income available to common shareholders	$ 16,701	$ 11,428	$ 48,269	$ 40,266
Earnings per share:				
Basic	$ 0.66	$ 0.45	$ 1.91	$ 1.60
Diluted	$ 0.65	$ 0.45	$ 1.89	$ 1.58

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net income	$ 16,701	$ 11,428	$ 48,269	$ 40,266
Other comprehensive (loss) gain:				
Unrealized holding gains (losses) on securities available for sale	534	(803)	264	(587)
Net changes in fair value of cash flow hedges	(17,859)	7,249	(12,906)	18,595
Tax effect	4,851	(1,805)	3,540	(5,764)
Other comprehensive (loss) gain	(12,474)	4,641	(9,102)	12,244
Comprehensive income	$ 4,227	$ 16,069	$ 39,167	$ 52,510

See accompanying notes to unaudited consolidated financial statements.

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

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Three Months Ended:						
Balance, July 1, 2024	25,331,916	$ 253	$ 46,644	$ 336,749	$ 23,582	$ 407,228
Net income	—	—	—	16,701	—	16,701
Stock based compensation expense	—	—	837	—	—	837
Other comprehensive loss	—	—	—	—	(12,474)	(12,474)
Dividends declared on common stock ($0.20 per share)	—	—	—	(5,107)	—	(5,107)
Balance, September 30, 2024	25,331,916	$ 253	$ 47,481	$ 348,343	$ 11,108	$ 407,185
Balance, July 1, 2023	25,279,846	$ 253	$ 45,516	$ 301,752	$ 25,642	$ 373,163
Net income	—	—	—	11,428	—	11,428
Stock based compensation expense	—	—	825	—	—	825
Repurchase of common stock	(38,689)	(1)	(761)	—	—	(762)
Other comprehensive income	—	—	—	—	4,641	4,641
Dividends declared on common stock ($0.18 per share)	—	—	—	(4,591)	—	(4,591)
Balance, September 30, 2023	25,241,157	$ 252	$ 45,580	$ 308,589	$ 30,283	$ 384,704
Nine Months Ended:						
Balance, January 1, 2024	25,205,506	252	45,699	315,356	20,210	$ 381,517
Net income	—	—	—	48,269	—	48,269
Stock based compensation expense	—	—	1,793	—	—	1,793
Vesting of restricted stock	126,820	1	(1)	—	—	—
Repurchase of common stock	(410)	—	(10)	—	—	(10)
Other comprehensive loss	—	—	—	—	(9,102)	(9,102)
Dividends declared on common stock ($0.60 per share)	—	—	—	(15,282)	—	(15,282)
Balance, September 30, 2024	25,331,916	$ 253	$ 47,481	$ 348,343	$ 11,108	$ 407,185
Balance, January 1, 2023	25,169,709	$ 252	$ 45,298	$ 285,832	$ 18,039	$ 349,421
Net income	—	—	—	40,266	—	40,266
Stock based compensation expense	—	—	1,596	—	—	1,596
Vesting of restricted stock	136,171	1	(1)	—	—	—
Repurchase of common stock	(64,723)	(1)	(1,313)	—	—	(1,314)
Impact of adoption of new accounting standard, net of tax[1]	—	—	—	(3,801)	—	(3,801)
Other comprehensive income	—	—	—	—	12,244	12,244
Dividends declared on common stock ($0.54 per share)	—	—	—	(13,708)	—	(13,708)
Balance, September 30, 2023	25,241,157	$ 252	$ 45,580	$ 308,589	$ 30,283	$ 384,704

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

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	2023
Cash flow from operating activities:		
Net income	$ 48,269	$ 40,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,200	1,960
Provision for credit losses	314	(797)
Stock based compensation expense	1,793	1,596
Unrealized (gains) losses recognized on equity securities	(233)	187
Loss (gain) on sale of foreclosed real estate	85	(547)
Write-down of foreclosed real estate	391	240
Gain on sale of residential real estate loans	(1,925)	—
Origination of SBA loans held for sale	(58,928)	(73,038)
Proceeds from sales of SBA loans held for sale	56,464	76,305
Gain on sale of SBA loans	(2,134)	(3,267)
Increase in cash value of bank owned life insurance	(1,713)	(1,332)
Increase in accrued interest receivable	(542)	(1,441)
Increase in SBA and USDA servicing rights	(58)	(22)
(Increase) Decrease in mortgage servicing rights	(23)	2,150
Decrease in other assets	1,809	462
(Decrease) increase in accrued interest payable	(540)	1,176
(Decrease) increase in other liabilities	(999)	46,503
Net cash flow provided by operating activities	44,230	90,401
Cash flow from investing activities:		
Proceeds from maturities, calls or paydowns of securities available for sale	503	943
Purchase of Federal Home Loan Bank stock	(2,405)	(353)
Proceeds from sales of residential real estate loans	189,414	—
(Increase) decrease in loans, net	(111,541)	25,077
Purchases of premises and equipment	(877)	(3,988)
Proceeds from sales of foreclosed real estate owned	136	4,109
Net cash flow provided by investing activities	75,230	25,788
Cash flow from financing activities:		
Dividends paid on common stock	(15,225)	(13,661)
Repurchases of common stock	(10)	(1,314)
(Decrease) increase in deposits, net	(7,816)	51,750
Decrease in other borrowings, net	—	(392)
Proceeds from Federal Home Loan Bank advances	450,000	275,000
Repayments of Federal Home Loan Bank advances	(400,000)	(325,000)
Net cash flow provided (used) by financing activities	26,949	(13,617)

Continued to following page.

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

	Nine Months Ended September 30,	
	2024	2023
Net change in cash and cash equivalents	146,409	102,572
Cash and cash equivalents at beginning of period	144,805	179,485
Cash and cash equivalents at end of period	$ 291,214	$ 282,057
Supplemental schedule of noncash investing and financing activities:		
Transfer of residential real estate loans to loans held for sale	$ 165,222	$ —
Transfer of loan principal to foreclosed real estate, net of write-downs	$ 661	$ 235
Supplemental disclosures of cash flow information - Cash paid during the year for:		
Interest	$ 72,753	$ 65,623
Income taxes	$ 16,556	$ 13,765

See accompanying notes to unaudited consolidated financial statements.

METROCITY BANKSHARES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of MetroCity Bankshares, Inc. ("Company") and its wholly-owned subsidiary, Metro City Bank (the "Bank"). The Company owns 100% of the Bank. The "Company" or "our," as used herein, includes Metro City Bank unless the context indicates that we refer only to MetroCity Bankshares, Inc.

These unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") followed within the financial services industry for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information or notes required for complete financial statements.

The Company principally operates in one business segment, which is community banking.

In the opinion of management, all adjustments, consisting of normal and recurring items, considered necessary for a fair presentation of the consolidated financial statements for the interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts reported in prior periods have been reclassified to conform to current year presentation. These reclassifications did not have a material effect on previously reported net income, shareholders' equity or cash flows.

Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2023.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2023, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "Company's 2023 Form 10-K"). There were no new accounting policies or changes to existing policies adopted during the first nine months of 2024 which had a significant effect on the Company's results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Contingencies

Due to the nature of their activities, the Company and its subsidiary are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of September 30, 2024. Although the ultimate outcome of all claims and lawsuits outstanding as of September 30, 2024 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on the Company's results of operations or financial condition.

Recently Issued Disclosure Rules

In March 2024, the U.S. Securities and Exchange Commission ("SEC") adopted the final rule under SEC Release No. 33-11275, "The Enhancement and Standardization of Climate-Related Disclosures for Investors". This rule will require registrants to disclose certain climate-related information in registration statements and annual reports. The disclosure requirements will apply to the Company's fiscal year beginning January 1, 2026. The Company is currently evaluating the final rule to determine its impact on the Company's disclosures.

The Company has evaluated the Accounting Standards Updates issued during 2024 to date but does not expect those updates to have a material impact on the consolidated financial statements.

Accounting Standards Adopted in 2023

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 applied 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 simplified 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 or are considered collateral dependent. 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.

The following new accounting policies were adopted during 2023:

Allowance for Credit Losses – Available for Sale Securities

The impairment model for available for sale ("AFS") securities differs from the CECL approach utilized by 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 September 30, 2024, 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.

Allowance for Credit Losses - Loans

Under the 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 financing receivable 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 $216,000 and $315,000 as of September 30, 2024 and December 31, 2023, respectively, and is included in Other Liabilities on the Company's Consolidated Balance Sheets.

NOTE 2 – INVESTMENT SECURITIES

The amortized costs, gross unrealized gains and losses, and estimated fair values of securities available for sale as of September 30, 2024 and December 31, 2023 are summarized as follows:

	September 30, 2024			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government entities and agencies	$ 4,511	$ —	$ —	$ 4,511
States and political subdivisions	8,035	—	(1,209)	6,826
Mortgage-backed GSE residential	8,281	—	(1,412)	6,869
Total	$ 20,827	$ —	$ (2,621)	$ 18,206

	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

The amortized costs and estimated fair values of investment securities available for sale at September 30, 2024 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.

	Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 376	$ 375
Due after one year but less than five years	5,375	5,364
Due after five years but less than ten years	—	—
Due in more than ten years	6,795	5,598
Mortgage-backed GSE residential	8,281	6,869
Total	$ 20,827	$ 18,206

Accrued interest receivable for securities available for sale totaled $ 77,000 and $115,000 as of September 30, 2024 and December 31, 2023, respectively. This accrued interest receivable is included in the "accrued interest receivable" line item on the Company's Consolidated Balance Sheets.

As of September 30, 2024 and December 31, 2023, the Company had securities pledged to the Federal Reserve Bank Discount Window with a carrying amount of $13.7 million and $13.9 million, respectively. There were no securities sold during the three or nine months ended September 30, 2024 and 2023.

Information pertaining to securities with gross unrealized losses at September 30, 2024 and December 31, 2023 aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized in the table below.

	September 30, 2024			
	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	$ —	$ —	$ 1,209	$ 6,826
Mortgage-backed GSE residential	—	—	1,412	6,867
Total	$ —	$ —	$ 2,621	$ 13,693

	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

At September 30, 2024, the nineteen securities available for sale (11 municipal securities and 8 mortgage-backed securities) with an unrealized loss have depreciated 16.07% 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 September 30, 2024 represent a credit loss impairment. As of September 30, 2024, 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 September 30, 2024 and December 31, 2023, the Company had equity securities with carrying values totaling $10.6 million and $10.3 million, respectively. The equity securities consist of our investment in a market-rate 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 three months ended September 30, 2024 and 2023, we recognized an unrealized gain of $ 292,000 and an unrealized loss of $245,000, respectively, in net income on our equity securities. During the nine months ended September 30, 2024 and 2023, we recognized an unrealized gain of $233,000 and an unrealized loss of $187,000, respectively, in net income on our equity securities. These unrealized gains and 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 September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands)	September 30, 2024	December 31, 2023
Construction and development	$ 16,539	$ 23,262
Commercial real estate	738,929	711,177
Commercial and industrial	63,606	65,904
Residential real estate	2,276,210	2,350,299
Consumer and other	215	319
Total loans receivable	3,095,499	3,150,961
Unearned income	(7,673)	(8,856)
Allowance for credit losses	(18,589)	(18,112)
Loans, net	$ 3,069,237	$ 3,123,993

The Company is not committed to lend additional funds to borrowers with nonaccrual or restructured loans.

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 September 30, 2024 and December 31, 2023, accrued interest receivable for loans totaled $15.6 million and $15.0 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 the three and nine months ended September 30, 2024 and 2023 is as follows:

	Three Months Ended September 30, 2024					
(Dollars in thousands)	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Total
Allowance for credit losses:						
Beginning balance	$ 25	$ 7,018	$ 698	$ 10,217	$ 2	$ 17,960
Charge-offs	—	—	(28)	—	—	(28)
Recoveries	—	—	4	—	—	4
Provision for loan losses	(13)	177	517	(28)	—	653
Ending balance	$ 12	$ 7,195	$ 1,191	$ 10,189	$ 2	$ 18,589

(Dollars in thousands)	Three Months Ended September 30, 2023					
	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Total
Allowance for credit losses:						
Beginning balance	$ 30	$ 6,208	$ 653	$ 11,199	$ 1	$ 18,091
Charge-offs	—	—	—	—	—	—
Recoveries	—	1	3	—	—	4
Provision for loan losses	(3)	(13)	(22)	(400)	3	(435)
Ending balance	$ 27	$ 6,196	$ 634	$ 10,799	$ 4	$ 17,660

(Dollars in thousands)	Nine Months Ended September 30, 2024					
	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Total
Allowance for credit losses:						
Beginning balance	$ 46	$ 6,876	$ 588	$ 10,597	$ 5	$ 18,112
Charge-offs	—	—	(28)	—	—	(28)
Recoveries	—	83	8	—	—	91
Provision for loan losses	(34)	236	623	(408)	(3)	414
Ending balance	$ 12	$ 7,195	$ 1,191	$ 10,189	$ 2	$ 18,589

(Dollars in thousands)	Nine Months Ended September 30, 2023					
	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	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	—	(231)	(221)	—	—	(452)
Recoveries	—	4	18	—	—	22
Provision for loan losses	(18)	337	(182)	(993)	3	(853)
Ending balance	$ 27	$ 6,196	$ 634	$ 10,799	$ 4	$ 17,660

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 September 30, 2024, there were $13.6 million, $3.1 million and $500,000 of collateral-dependent loans which were secured by residential real estate, commercial real estate and equipment, respectively. 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 September 30, 2024 and December 31, 2023 was $533,000 and $282,000, respectively.

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 September 30, 2024 and December 31, 2023:

(Dollars in thousands) **September 30, 2024**	**Current**	**30-59 Days**	**60-89 Days**	**Accruing Greater than 90 Days**	**Total Accruing Past Due**	**Nonaccrual**	**Total Financing Receivables**
Construction and development	$ 16,326	$ —	$ —	$ —	$ —	$ —	$ 16,326
Commercial real estate	732,523	—	2,804	—	2,804	537	735,864
Commercial and industrial	62,852	—	356	—	356	189	63,397
Residential real estate	2,251,833	—	6,601	—	6,601	13,590	2,272,024
Consumer and other	215	—	—	—	—	—	215
Total	$ 3,063,749	$ —	$ 9,761	$ —	$ 9,761	$ 14,316	$ 3,087,826

(Dollars in thousands) **December 31, 2023**	**Current**	**30-59 Days**	**60-89 Days**	**Accruing Greater than 90 Days**	**Total Accruing Past Due**	**Nonaccrual**	**Total Financing Receivables**
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

The following table presents an analysis of nonaccrual loans with and without a related allowance for credit losses as of September 30, 2024 and December 31, 2023:

(Dollars in thousands) **September 30, 2024**	**Nonaccrual Loans With a Related ACL**	**Nonaccrual Loans Without a Related ACL**	**Total Nonaccrual Loans**
Construction and development	$ —	$ —	$ —
Commercial real estate	234	303	537
Commercial and industrial	185	4	189
Residential real estate	—	13,590	13,590
Total	$ 419	$ 13,897	$ 14,316

(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 risk rating system for its loan portfolio as follows:

- Loans rated Pass – Loans in this category 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 do possess deficiencies deserving close attention.
- Loans rated Substandard (grade 8) – Loans are inadequately protected by the current credit-worthiness 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 of such little value that their 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 tables present the loan portfolio's amortized cost by loan type, risk rating and year of origination as of September 30, 2024 and December 31, 2023. There were no loans with a risk rating of Doubtful or Loss at September 30, 2024 and December 31, 2023.

(Dollars in thousands)	Term Loan by Origination Year						Revolving	
September 30, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Loans**	**Total Loans**
Construction and development								
Pass	$ 6,080	$ 2,568	$ 5,556	$ 179	$ 1,164	$ 231	$ —	$ 15,778
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	548	—	—	—	548
Total construction and development	$ 6,080	$ 2,568	$ 5,556	$ 727	$ 1,164	$ 231	$ —	$ 16,326
Commercial real estate								
Pass	$ 84,643	$ 152,363	$ 201,589	$ 98,815	$ 74,174	$ 112,233	$ 3,280	$ 727,097
Special Mention	—	—	—	—	1,890	—	—	1,890
Substandard	—	—	575	—	234	6,068	—	6,877
Total commercial real estate	$ 84,643	$ 152,363	$ 202,164	$ 98,815	$ 76,298	$ 118,301	$ 3,280	$ 735,864
Commercial and industrial								
Pass	$ 4,638	$ 17,674	$ 10,925	$ 4,022	$ 2,847	$ 3,407	$ 17,557	$ 61,070
Special Mention	—	—	—	—	—	1,207	—	1,207
Substandard	—	—	349	195	349	227	—	1,120
Total commercial and industrial	$ 4,638	$ 17,674	$ 11,274	$ 4,217	$ 3,196	$ 4,841	$ 17,557	$ 63,397
Commercial and industrial:								
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ 28	$ —	$ 28
Residential real estate								
Pass	$ 243,721	$ 172,655	$ 655,659	$ 762,799	$ 255,847	$ 165,565	$ —	$ 2,256,246
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	955	1,060	3,176	2,035	8,552	—	15,778
Total residential real estate	$ 243,721	$ 173,610	$ 656,719	$ 765,975	$ 257,882	$ 174,117	$ —	$ 2,272,024
Consumer and other								
Pass	$ 215	$ —	$ —	$ —	$ —	$ —	$ —	$ 215
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total consumer and other	$ 215	$ —	$ —	$ —	$ —	$ —	$ —	$ 215
Total loans	$ 339,297	$ 346,215	$ 875,713	$ 869,734	$ 338,540	$ 297,490	$ 20,837	$ 3,087,826

(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 nine months ended September 30, 2024, four construction and development revolving loans totaling $ 16.3 million were converted to commercial real estate term loans. 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.

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 tables present the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2024 and 2023.

(Dollars in thousands) **Three and Nine Months Ended September 30, 2024**	**Interest Term Extension**	**Payment Delay**	**Interest Rate Reduction**	**Total**	**% of Total Financing Receivable**
Construction and development	$ —	$ —	$ —	$ —	0 %
Commercial real estate	—	12,928	—	12,928	1.76
Commercial and industrial	—	497	—	497	0.78
Residential real estate	—	—	—	—	0
Consumer and other	—	—	—	—	0
Total	$ —	$ 13,425	$ —	$ 13,425	0.43 %

(Dollars in thousands) **Three and Nine Months Ended September 30, 2023**	**Interest Term Extension**	**Payment Delay**	**Interest Rate Reduction**	**Total**	**% of Total Financing Receivable**
Construction and development	$ —	$ —	$ —	$ —	0 %
Commercial real estate	—	—	12,400	12,400	1.99
Commercial and industrial	—	—	—	—	0.00
Residential real estate	—	—	—	—	0
Consumer and other	—	—	—	—	0
Total	$ —	$ —	$ 12,400	$ 12,400	0.41 %

The following tables present the financial effect of the loan modifications made to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2024 and 2023.

(Dollars in thousands) **Three and Nine Months Ended September 30, 2024**	**Weighted/Average Months of Term Extension**	**Weighted/Average Payment Deferral**	**Weighted/Average Interest Rate Reduction**
Construction and development	—	$ —	— %
Commercial real estate	—	233	—
Commercial and industrial	—	12	—
Residential real estate	—	—	—
Consumer and other	—	—	—
Total	—	$ 245	— %

(Dollars in thousands) **Three and Nine Months Ended September 30, 2023**	**Weighted/Average Months of Term Extension**	**Weighted/Average Payment Deferral**	**Weighted/Average Interest Rate Reduction**
Construction and development	—	$ —	— %
Commercial real estate	—	—	3.60
Commercial and industrial	—	—	—
Residential real estate	—	—	—
Consumer and other	—	—	—
Total	—	$ —	3.60 %

There was one commercial and industrial loan modification totaling $ 147,000 made to a borrower experiencing financial difficulty that defaulted during the three and nine months ended September 30, 2024. There were no loan modifications made to borrowers experiencing financial difficulty defaulted during the three and nine months ended September 30, 2023. There were no charge-offs of previously modified loans were recorded during the three and nine months ended September 30, 2024 and 2023.

NOTE 4 – 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 September 30, 2024 and December 31, 2023, the unpaid principal balances of serviced loans totaled $487.4 million and $508.0 million, respectively.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars in thousands)	2024	2023	2024	2023
Beginning of period	$ 7,108	$ 8,018	$ 7,251	$ 7,038
Change in fair value	201	(911)	58	69
End of period, fair value	$ 7,309	$ 7,107	$ 7,309	$ 7,107

Fair value at September 30, 2024 and December 31, 2023 was determined using discount rates ranging from 5.95% to 10.88% and 8.66% to 14.73%, respectively, and prepayment speeds ranging from 8.99% to 21.65% and 7.29% to 20.23%, respectively, depending on the stratification of the specific right. Average default rates are based on the industry average for the applicable NAICS/SIC code.

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 5 – RESIDENTIAL MORTGAGE LOAN SERVICING

Residential mortgage loans serviced for others are not reported as assets. The outstanding principal of these loans at September 30, 2024 and December 31, 2023 was $556.4 million and $443.1 million, respectively.

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

(Dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Mortgage loan servicing rights:	2024	2023	2024	2023
Beginning of period	$ 1,454	$ 2,514	$ 1,273	$ 3,973
Additions	310	—	1,232	—
Amortization expense	(216)	(691)	(957)	(2,150)
Valuation allowance	(252)	—	(252)	—
End of period, carrying value	$ 1,296	$ 1,823	$ 1,296	$ 1,823

(Dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Valuation allowance:	2024	2023	2024	2023
Beginning balance	$ —	$ —	$ —	$ —
Additions expensed	252	—	252	—
Reductions credited to operations	—	—	—	—
Direct write-downs	—	—	—	—
Ending balance	$ 252	$ —	$ 252	$ —

The fair value of servicing rights was $6.6 million and $6.3 million at September 30, 2024 and December 31, 2023, respectively. Fair value at September 30, 2024 was determined by using a discount rate of 13.08%, prepayment speeds of 19.92%, and a weighted average default rate of 1.50%. 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%.

NOTE 6 – FEDERAL HOME LOAN BANK ADVANCES & OTHER BORROWINGS

Advances from the Federal Home Loan Bank ("FHLB") at September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands)	September 30, 2024	December 31, 2023
Convertible advance maturing February 13, 2026; fixed rate of 4.184%	$ —	$ 50,000
Convertible advance maturing April 22, 2027; fixed rate of 4.174%	25,000	—
Convertible advance maturing April 23, 2027; fixed rate of 4.177%	25,000	—
Convertible advance maturing April 26, 2027; fixed rate of 4.193%	50,000	—
Convertible advance maturing May 7, 2027; fixed rate of 4.089%	100,000	—
Convertible advance maturing May 13, 2027; fixed rate of 4.099%	50,000	—
Convertible advance maturing May 14, 2027; fixed rate of 4.10%	75,000	—
Convertible advance maturing June 24, 2027; fixed rate of 3.993%	50,000	—
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
Total FHLB advances	$ 375,000	$ 325,000

The FHLB advances outstanding at September 30, 2024 all have a conversion feature that allows the FHLB to call the advances every three months. At September 30, 2024 and December 31, 2023, the Company had a line of credit with the FHLB, set as a percentage of total assets, with maximum borrowing capacity of $1.08 billion and $1.05 billion, respectively. The available borrowing amounts are collateralized by the Company's FHLB stock and pledged residential real estate loans, which totaled $2.26 billion and $2.32 billion at September 30, 2024 and December 31, 2023, respectively.

At September 30, 2024, the Company had unsecured federal funds lines available with correspondent banks of approximately $47.5 million. There were no advances outstanding on these lines at September 30, 2024.

At September 30, 2024 and December 31, 2023, the Company had Federal Reserve Discount Window funds available of approximately $532.2 million and $446.3 million. The funds are collateralized by a pool of construction and development, commercial real estate and commercial and industrial loans with carrying balances totaling $631.1 million and $604.0 million as of September 30, 2024 and December 31, 2023, respectively, as well as all of the Company's municipal and mortgage backed securities. There were no outstanding borrowings on this line as of September 30, 2024.

NOTE 7 – 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 include options to terminate the lease and none have 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 three and nine months ended September 30, 2024 and 2023 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2024	2023	2024	2023
Operating lease cost	$ 539	$ 532	$ 1,633	$ 1,441
Variable lease cost	49	42	147	130
Short-term lease cost	—	—	—	—
Sublease income	—	—	—	—
Total net lease cost	$ 588	$ 574	$ 1,780	$ 1,571

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

(Dollars in thousands) Twelve Months Ended:	Lease Liability
September 30, 2025	$ 1,920
September 30, 2026	1,665
September 30, 2027	1,419
September 30, 2028	1,100
September 30, 2029	591
After September 30, 2029	1,383
Total lease payments	8,078
Less: interest discount	(783)
Present value of lease liabilities	$ 7,295

Supplemental Lease Information	September 30, 2024
Weighted-average remaining lease term (years)	5.6
Weighted-average discount rate	3.60 %

	Nine Months Ended September 30,	
(Dollars in thousands)	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases (cash payments)	$ 1,564	$ 1,538
Operating cash flows from operating leases (lease liability reduction)	$ 1,356	$ 1,345
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	$ —	$ —

NOTE 8 – 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 began 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 began 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 $17.7 million and $29.7 million and an unrealized loss of $589,000 and $476,000 at September 30, 2024 and December 31, 2023, 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 in November 2023. The interest rate cap was designated as a cash flow hedge of our deposit accounts that are indexed to the Federal Funds Effective rate. The rate cap premium paid by the Company at inception will be 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 $1.2 million and $2.1 million at September 30, 2024 and December 31, 2023, respectively, and are 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 September 30, 2024, there were no cash deposits pledged as collateral by the Company. At September 30, 2024, the Company had $17.4 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 Nine Months Ended September 30, 2024**	**As of or for the Year Ended December 31, 2023**
Notional Amounts	$ 800,000	$ 800,000
Weighted-average pay rate	2.28%	2.28%
Weighted-average receive rate	5.31%	5.03%
Weighted-average maturity	4.2 years	4.2 years
Weighted-average remaining maturity	1.6 years	2.4 years
Net interest income	$ 16,017	$ 5,246

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

(Dollars in thousands)	**As of or for the Nine Months Ended September 30, 2024**	**As of or for the Year Ended December 31, 2023**
Notional Amounts	$ 50,000	$ 50,000
Rate Cap Premiums	257	350
Cap Rate	2.50%	2.50%
Weighted-average maturity	5.0 years	5.0 years
Weighted-average remaining maturity	2.1 years	2.8 years
Net interest income	$ 975	$ 139

NOTE 9 – LOAN COMMITMENTS AND RELATED FINANCIAL INSTRUMENTS

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 September 30, 2024 and December 31, 2023 include:

(Dollars in thousands)	September 30, 2024	December 31, 2023
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 58,459	$ 68,083
Standby letters of credit	$ 4,184	$ 4,908

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 $58.5 million of unused lines of credit and $ 4.2 million for standby letters of credit as of September 30, 2024. 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.

NOTE 10 – 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 September 30, 2024 and December 31, 2023 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:

	September 30, 2024				
(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	$ 4,511	$ —	$ —	$ 4,511	
States and political subdivisions	6,826	—	6,826	—	
Mortgage-backed GSE residential	6,869	—	6,869	—	
Total securities available for sale	18,206	—	13,695	4,511	
Equity securities	10,568	10,568	—	—	
SBA and USDA servicing asset	7,309	—	—	7,309	
Interest rate derivatives	18,895	—	18,895	—	
	$ 54,978	$ 10,568	$ 32,590	$ 11,820	
Nonrecurring fair value measurements:					
Collateral-dependent loans	$ 1,525	$ —	$ —	$ 1,525	$ 1
Foreclosed real estate, net	854	—	—	854	(377)
	$ 2,379	$ —	$ —	$ 2,379	$ (376)
Liabilities					
Recurring fair value measurements:					
Interest rate swaps	$ 589	$ —	$ 589	$ —	

(Dollars in thousands)	December 31, 2023 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 and USDA 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 swaps	$ 476	$ —	$ 476	$ —	

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

Securities, Available for Sale: 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 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 derivatives 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 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. Fair value for both collateral-dependent 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 three and nine months ended September 30, 2024 and 2023:

(Dollars in thousands) **Three Months Ended:**	**Obligations of U.S. Government Entities and Agencies**	**SBA and USDA Servicing Asset**	**Interest Only Strip**	**Liabilities**
Fair value, July 1, 2024	$ 4,554	$ 7,108	$ —	$ —
Total gains included in income	—	201	—	—
Settlements	—	—	—	—
Prepayments/paydowns	(43)	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Fair value, September 30, 2024	$ 4,511	$ 7,309	$ —	$ —
Fair value, July 1, 2023	$ 4,790	$ 8,018	$ —	$ —
Total losses included in income	—	(911)	—	—
Settlements	—	—	—	—
Prepayments/paydowns	(112)	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Fair value, September 30, 2023	$ 4,678	$ 7,107	$ —	$ —
Nine Months Ended:				
Fair value, January 1, 2024	$ 4,637	$ 7,251	$ —	$ —
Total gains included in income	—	58	—	—
Settlements	—	—	—	—
Prepayments/paydowns	(126)	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Fair value, September 30, 2024	$ 4,511	$ 7,309	$ —	$ —
Fair value, January 1, 2023	$ 5,059	$ 7,038	$ 47	$ —
Total gains/(losses) included in income	—	69	(47)	—
Settlements	—	—	—	—
Prepayments/paydowns	(381)	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Fair value, September 30, 2023	$ 4,678	$ 7,107	$ —	$ —

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 September 30, 2024 and December 31, 2023:

	Valuation Technique	Unobservable Input	General Range
September 30, 2024:			
Recurring:			
Obligations of U.S. Government entities and agencies	Discounted cash flows	Discount rate	4%-6%
SBA and USDA servicing asset	Discounted cash flows	Prepayment speed	8.99%-21.65%
		Discount rate	5.95%-10.88%
Nonrecurring:			
Collateral-dependent loans	Appraised value less estimated selling costs	Estimated selling costs	6%
Foreclosed real estate	Appraised value less estimated selling costs	Estimated selling costs	6%
December 31, 2023:			
Recurring:			
Obligations of U.S. Government entities and agencies	Discounted cash flows	Discount rate	4%-6%
SBA and USDA servicing asset	Discounted cash flows	Prepayment speed	7.29%-20.23%
		Discount rate	8.66%-14.73%
Nonrecurring:			
Collateral-dependent loans	Appraised value less estimated selling costs	Estimated selling costs	6%
Foreclosed real estate	Appraised value less estimated selling costs	Estimated selling costs	6%

The carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2024 and December 31, 2023 are as follows:

	Carrying	Estimated Fair Value at September 30, 2024			
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash, due from banks, and federal funds sold	$ 291,214	$ —	$ 291,214	$ —	$ 291,214
Investment securities	28,774	10,568	13,695	4,511	28,774
FHLB stock	20,251	—	—	—	N/A
Loans held for sale	4,598	—	4,598	—	4,598
Loans, net	3,069,237	—	—	2,990,665	2,990,665
Accrued interest receivable	15,667	—	59	15,608	15,667
SBA and USDA servicing asset	7,309	—	—	7,309	7,309
Mortgage servicing asset	1,296	—	—	6,594	6,594
Interest rate derivatives	18,895	—	18,895	—	18,895
Financial Liabilities:					
Deposits	2,723,120	—	2,724,209	—	2,724,209
Federal Home Loan Bank advances	375,000	—	381,600	—	381,600
Accrued interest payable	3,593	—	3,593	—	3,593
Interest rate derivatives	589	—	589	—	589

(Dollars in thousands)	Carrying Amount	Estimated Fair Value at December 31, 2023			
		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
FHLB 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 and USDA servicing asset	7,251	—	—	7,251	7,251
Mortgage servicing asset	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

NOTE 11 – 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. Under the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules"), the Bank must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available for sale securities, if any, is not included in computing regulatory capital. Management believes as of September 30, 2024 the Company and Bank meet 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 September 30, 2024 and December 31, 2023, 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 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 September 30, 2024 and December 31, 2023. The Bank exceeded all regulatory capital requirements and was considered to be “well-capitalized” as of September 30, 2024 and December 31, 2023.

	Actual		Minimum Capital Required - Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
(Dollars in thousands)	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥
As of September 30, 2024:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 414,881	20.03 %	217,488	10.5 %	N/A	N/A
Bank	413,027	19.94 %	217,482	10.5	207,126	10.0 %
Tier I Capital (to Risk Weighted Assets)						
Consolidated	396,076	19.12 %	176,062	8.5 %	N/A	N/A
Bank	394,222	19.03 %	176,057	8.5	165,701	8.0 %
Common Tier 1 (CET1)						
Consolidated	396,076	19.12 %	144,992	7.0 %	N/A	N/A
Bank	394,222	19.03 %	144,988	7.0	134,632	6.5 %
Tier 1 Capital (to Average Assets)						
Consolidated	396,076	11.12 %	142,497	4.0 %	N/A	N/A
Bank	394,222	11.07 %	142,475	4.0	178,094	5.0 %
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 %

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 September 30, 2024, 240,000 stock options had been granted and 878,901 shares of restricted stock had been issued under the 2018 Incentive Plan.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2024 is presented below:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2024	240,000	$ 12.70
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at September 30, 2024	240,000	$ 12.70

The Company recognized no compensation expense for stock options during the three and nine months ended September 30, 2024 and 2023. As of September 30, 2024 and December 31, 2023, 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 nine months ended September 30, 2024 is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2024	230,221	$ 17.71
Granted	104,464	24.65
Vested	(126,820)	19.33
Forfeited	—	—
Nonvested at September 30, 2024	207,865	$ 20.20

During the three months ended September 30, 2024 and 2023, the Company recognized compensation expense for restricted stock of $837,000 and $825,000, respectively. During the nine months ended September 30, 2024 and 2023, the Company recognized compensation expense for restricted stock of $1.8 million and $1.6 million, respectively. As of September 30, 2024 and December 31, 2023, there was $3.8 million and $3.0 million, respectively, of total unrecognized compensation cost related to nonvested shares granted under the 2018 Incentive Plan. As of September 30, 2024, the cost is expected to be recognized over a weighted-average period of 2.2 years.

NOTE 13 – EARNINGS PER SHARE

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

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Basic earnings per share				
Net Income	$ 16,701	$ 11,428	$ 48,269	$ 40,266
Weighted average common shares outstanding	25,331,916	25,274,665	25,261,347	25,203,114
Basic earnings per common share	$ 0.66	$ 0.45	$ 1.91	$ 1.60
Diluted earnings per share				
Net Income	$ 16,701	$ 11,428	$ 48,269	$ 40,266
Weighted average common shares outstanding for basic earnings per common share	25,331,916	25,274,665	25,261,347	25,203,114
Add: Dilutive effects of restricted stock and options	342,942	317,209	329,725	307,575
Average shares and dilutive potential common shares	25,674,858	25,591,874	25,591,072	25,510,689
Diluted earnings per common share	$ 0.65	$ 0.45	$ 1.89	$ 1.58

There were no stock options or restricted stock excluded from the computation of diluted earnings per common share since they were antidilutive for the three and nine months ended September 30, 2024 and 2023.

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of MetroCity Bancshares, Inc. and our wholly owned subsidiary, Metro City Bank, from December 31, 2023 through September 30, 2024 and on our results of operations for the three and nine months ended September 30, 2024 and 2023. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2023 included in our Annual Report on Form 10-K, and information presented elsewhere in this Quarterly Report on Form 10-Q, particularly the unaudited consolidated financial statements and related notes appearing in Item 1.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 quarterly report and the following:

- General economic and business conditions in our local markets, including conditions affecting employment levels, interest rates, inflation, 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 prolonged elevated 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 SBA loan portfolios;
- negative impacts related to our mortgage banking services, including declines in our mortgage originations or profitability due to prolonged elevated 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;
- the impact of prolonged elevated interest rates on our financial projections, models and guidance;
- 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;

- 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 as a result of the 2024 United States presidential election), and also 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 and the potential effect on our reputation;
- 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, which may be exacerbated by the development of generative artificial intelligence, 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;

- 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 or cause other disruptions and/or increase costs, including, but not limited to, property and casualty and other insurance cost;

- 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 the Company's 2023 Form 10-K, including those identified under the heading "Risk Factors", and detailed from time to time in our other filings with the U.S. Securities and Exchange Commission.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q. 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.

CECL Adoption

On January 1, 2023, the Company adopted ASC Topic 326 which replaces the incurred loss approach for measuring credit losses with an expected loss model, referred to the current expected credit loss ("CECL") model. CECL 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. The adoption of this guidance resulted in an increase of the allowance for credit losses of $5.1 million, the creation of an allowance for unfunded commitments of $239,000 and a reduction of retained earnings of $3.8 million, net of the increase in deferred tax assets of $1.5 million.

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 September 30, 2024, included elsewhere in this Form 10-Q, for additional information on the allowance for credit losses and the allowance for unfunded commitments.

Critical Accounting Policies and Estimates

Our accounting and reporting estimates conform with U.S. GAAP and general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We consider accounting estimates that can (1) be replaced by other reasonable estimates and/or (2) changes to an estimate from period to period that have a material impact on the presentation of our financial condition, changes in financial condition or results of operations as well as (3) those estimates that require significant and complex assumptions about matters that are highly uncertain to be critical accounting estimates. We consider our critical accounting policies to include the allowance for credit losses, servicing assets, fair value of financial instruments and income taxes.

Critical accounting estimates include a high degree of uncertainty in the underlying assumptions. Management bases its estimates on historical experience, current information and other factors deemed relevant. The development, selection and disclosure of our critical accounting estimates are reviewed with the Audit Committee of the Company's Board of Directors. Actual results could differ from these estimates. For additional information regarding critical accounting policies, refer to “Part II - Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” and Note 1 of our consolidated financial statements as of December 31, 2023 in the Company’s 2023 Form 10-K. There have been no significant changes in the Company’s application of critical accounting policies since December 31, 2023.

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 significant reliance on the credit risk rating we assign to individual borrowers, 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 September 30, 2024, included elsewhere in this Form 10-Q, for additional information on the reserve and allowance for credit losses.

Overview

MetroCity Bankshares, Inc. is a bank holding company 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. 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 September 30, 2024, we had total assets of $3.57 billion, total loans of $3.09 billion, total deposits of $2.72 billion and total shareholders' equity of $407.2 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.

Selected Financial Data

The following table sets forth unaudited selected financial data for the most recent five quarters and for the nine months ended September 30, 2024 and 2023. This data should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Item 1 and the information contained in this Item 2.

(Dollars in thousands, except per share data)	As of or for the Three Months Ended September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	As of or for the Nine Months Ended September 30, 2024	September 30, 2023
Selected income statement data:							
Interest income	$ 53,833	$ 54,108	$ 52,358	$ 50,671	$ 48,709	$ 160,299	$ 142,156
Interest expense	23,544	23,396	25,273	24,549	24,555	72,213	66,799
Net interest income	30,289	30,712	27,085	26,122	24,154	88,086	75,357
Provision for credit losses	582	(128)	(140)	782	(381)	314	(797)
Noninterest income	6,615	5,559	5,568	4,712	2,657	17,742	13,492
Noninterest expense	13,660	13,032	12,361	13,915	11,540	39,053	33,811
Income tax expense	5,961	6,430	5,801	4,790	4,224	18,192	15,569
Net income	16,701	16,937	14,631	11,347	11,428	48,269	40,266
Per share data:							
Basic income per share	$ 0.66	$ 0.67	$ 0.58	$ 0.45	$ 0.45	$ 1.91	$ 1.60
Diluted income per share	$ 0.65	$ 0.66	$ 0.57	$ 0.44	$ 0.45	$ 1.89	$ 1.58
Dividends per share	$ 0.20	$ 0.20	$ 0.20	$ 0.18	$ 0.18	$ 0.60	$ 0.54
Book value per share (at period end)	$ 16.07	$ 16.08	$ 15.73	$ 15.14	$ 15.24	$ 16.07	$ 15.24
Shares of common stock outstanding	25,331,916	25,331,916	25,205,506	25,205,506	25,241,157	25,331,916	25,241,157
Weighted average diluted shares	25,674,858	25,568,333	25,548,089	25,543,861	25,591,874	25,591,072	25,510,689
Performance ratios:							
Return on average assets	1.86 %	1.89 %	1.65 %	1.29 %	1.30 %	1.80 %	1.57 %
Return on average equity[(1)]	16.26	17.10	15.41	11.71	12.14	16.27	14.96
Dividend payout ratio	30.58	30.03	34.77	40.36	40.18	31.66	34.04
Yield on total loans	6.43	6.46	6.34	6.11	5.98	6.41	5.93
Yield on average earning assets	6.36	6.45	6.27	6.14	5.92	6.36	5.88
Cost of average interest bearing liabilities	3.69	3.68	3.94	3.91	3.97	3.77	3.67
Cost of deposits	3.61	3.63	3.97	3.95	4.05	3.74	3.81
Net interest margin	3.58	3.66	3.24	3.17	2.94	3.50	3.11
Efficiency ratio[(2)]	37.01	35.93	37.86	45.13	43.04	36.90	38.18
Asset quality data (at period end):							
Net charge-offs/(recoveries) to average loans held for investment	0.00 %	(0.01)%	(0.00)%	0.04 %	(0.00)%	(0.00)%	0.02 %

Nonperforming assets to gross loans and OREO	0.51	0.47	0.47	0.51	0.52	0.51	0.52
ACL to nonperforming loans	129.85	138.11	135.23	123.36	116.74	129.85	116.74
ACL to loans held for investment	0.60	0.58	0.58	0.57	0.58	0.60	0.58
Balance sheet and capital ratios:							
Gross loans held for investment to deposits	113.67 %	112.85 %	110.97 %	115.38 %	111.77 %	113.67 %	111.77 %
Noninterest bearing deposits to deposits	20.29	20.54	19.43	18.75	20.58	20.29	20.58
Investment securities to assets	0.81	0.78	0.78	0.82	0.79	0.81	0.79
Common equity to assets	11.41	11.26	10.87	10.89	10.96	11.41	10.96
Leverage ratio	11.12	10.75	10.27	10.20	10.07	11.12	10.07
Common equity tier 1 ratio	19.12	18.25	16.96	16.73	17.03	19.12	17.03
Tier 1 risk-based capital ratio	19.12	18.25	16.96	16.73	17.03	19.12	17.03
Total risk-based capital ratio	20.03	19.12	17.81	17.60	17.91	20.03	17.91
Mortgage and SBA loan data:							
Mortgage loans serviced for others	$ 556,442	$ 529,823	$ 443,905	$ 443,072	$ 464,823	$ 556,442	$ 464,823
Mortgage loan production	122,355	94,056	94,016	128,931	91,891	310,427	208,056
Mortgage loan sales	54,193	111,424	21,873	—	—	187,490	—
SBA loans serviced for others	487,359	486,051	516,425	508,000	487,827	487,359	487,827
SBA loan production	35,839	8,297	11,397	27,529	18,212	55,533	55,561
SBA loan sales	28,858	—	24,065	—	5,169	52,923	71,925

(1) Excluding average accumulated other comprehensive income, our return on average equity for the three months ended September 30, 2024 and 2023 was 17.25% and 13.04%, respectively. Excluding average accumulated other comprehensive income, our return on average equity for the nine months ended September 30, 2024 and 2023 was 17.27% and 15.81%, respectively.

(2) Represents noninterest expense divided by total revenue (net interest income and total noninterest income).

Results of Operations

We recorded net income of $16.7 million for the three months ended September 30, 2024 compared to $11.4 million for the same period in 2023, an increase of $5.3 million, or 46.1%. This increase was due to an increase in net interest income of $6.1 million and an increase in noninterest income of $4.0 million, offset by an increase in noninterest expense of $2.1 million, an increase in income tax expense of $1.7 million and an increase in provision for credit losses of $963,000.

For the nine months ended September 30, 2024, we recorded net income of $48.3 million compared to $40.3 million for the nine months ended September 30, 2023, an increase of $8.0 million, or 19.9%. This increase was due to an increase in net interest income of $12.7 million and an increase in noninterest income of $4.3 million, offset by an increase in noninterest expense of $5.2 million, an increase income tax expense of $2.6 million and an increase in provision for credit losses of $1.1 million.

Basic and diluted earnings per common share for the three months ended September 30, 2024 was $0.66 and $0.65, respectively, compared to $0.45 for both the basic and diluted earnings per common share for the same period in 2023. For the nine months ended September 30, 2024, basic and diluted earnings per common share was $1.91 and $1.89, respectively, compared to $1.60 and $1.58 for the same period in 2023, respectively.

Interest Income

Interest income totaled $53.8 million for the three months ended September 30, 2024, an increase of $5.1 million, or 10.5%, from the three months ended September 30, 2023, primarily due to a 45 basis points increase in the loan yield coupled with an $86.2 million increase in average loan balances, as well as a 38 basis points increase in the total investment yield coupled with a $19.7 million increase in the average total investment balance. The increase in average loans is due to an increase of $93.5 million in average commercial real estate loans, an increase of $6.1 million in average residential mortgage loans and an increase of $2.8 million in average commercial and industrial loans, offset by a decrease of $16.4 million in construction and development loans. As compared to the three months ended September 30, 2023, the yield on average interest-earning assets increased by 44 basis points to 6.36% from 5.92% with the yield on average loans increasing by 45 basis points and the yield on average total investments increasing by 38 basis points.

Interest income was $160.3 million for the nine months ended September 30, 2024 compared to $142.2 million for the same period in 2023, an increase of $18.1 million, or 12.8%, primarily due to a 48 basis point increase in the loan yield coupled with an increase in average loan balances of $112.5 million, as well as a 58 basis points increase in the interest earning cash accounts yield coupled with a $20.0 million increase in the average interest earning cash balances. The increase in average loans is due to an increase of $73.9 million in average commercial real estate loans, a $44.5 million increase in average residential mortgage loans and an increase of $13.8 million in average commercial and industrial loans, offset by a decrease of $19.8 million in construction and development loans. As compared to the nine months ended September 30, 2023, the yield on average interest-earning assets increased by 48 basis points to 6.36% from 5.88% with the yield on average loans increasing by 48 basis points and the yield on average total investments increasing by 58 basis points.

Interest Expense

Interest expense for the three months ended September 30, 2024 decreased $1.0 million, or 4.1%, to $23.5 million compared to interest expense of $24.6 million for the three months ended September 30, 2023, primarily due to a 44 basis points decrease in deposit costs, offset by a $31.8 million increase in average deposit balances. The 44 basis points decrease in deposit costs was primarily driven by a 199 basis points decrease in the yield on average money market deposits from the benefit received on our interest rate swaps, offset by an 81 basis point increase in time deposit costs. Average time deposits increased by $91.5 million while average money market deposits decreased by $54.4 million. Average borrowings for the three months ended September 30, 2024 increased by $50.7 million with an increase in rate of 73 basis points compared to the three months ended September 30, 2023.

Interest expense totaled $72.2 million for the nine months ended September 30, 2024, an increase of $5.4 million, or 8.1%, compared to the same period in 2023, primarily due to a $128.4 million increase in average interest-bearing deposits and a 108 basis points increase in borrowing costs, partially offset by a seven basis points decrease in deposit costs. Average borrowings for the nine months ended September 30, 2024 decreased by $3.1 million compared to the same period in 2023.

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 three months ended September 30, 2024, we recorded a credit to interest expense of $6.4 million from the benefit received on these interest rate derivatives compared to a credit to interest expense of $1.3 million recorded during the three months ended September 30, 2023. During the nine months ended September 30, 2024, we recorded a credit to interest expense of $17.0 million from the benefit received on these interest rate derivatives compared to a credit to interest expense of $2.3 million recorded during the nine months ended September 30, 2023. Based on the Federal Funds Effective rate as of September 30, 2024 (4.83%), the Company would estimate to record a credit to interest expense of approximately $5.4 million for the remainder of 2024 from the benefit received on these interest rate derivatives. See Note 8 of our consolidated financial statements as of September 30, 2024, included elsewhere in this Form 10-Q, for additional information on these interest rate derivatives.

Net Interest Margin

The net interest margin for the three months ended September 30, 2024 increased by 64 basis points to 3.58% from 2.94% for the three months ended September 30, 2023, primarily due to a 44 basis points increase in the yield on average interest-earning assets of $3.37 billion and a 28 basis points decrease in the cost of average interest-bearing liabilities of $2.54 billion. Average earning assets for the three months ended September 30, 2024 increased by $105.9 million from the three months ended September 30, 2023, due to a $86.2 million increase in average loans and a $19.7 million increase in average total investments. Average interest-bearing liabilities for the three months ended September 30, 2024 increased by $82.4 million from the three months ended September 30, 2023, driven by increases in average borrowings of $50.7 million and average interest-bearing deposits of $31.8 million.

The net interest margin for the nine months ended September 30, 2024 increased by 39 basis points to 3.50% from 3.11% for the nine months ended September 30, 2023, primarily due to a 48 basis points increase in the yield on average interest-earning assets of $3.37 billion, offset by a 10 basis points increase in the cost of average interest-bearing liabilities of $2.56 billion. Average earning assets increased by $131.4 million due to a $112.5 million increase in average loans and a $20.0 million increase in average interest-earning cash accounts. Average interest-bearing liabilities increased by $125.3 million, primarily driven by an increase in average interest-bearing deposits of $128.4 million, offset by a $3.1 million decrease in average borrowings.

Net interest margin and net interest income are influenced by internal and external factors. Internal factors include balance sheet changes on both volume and mix and pricing decisions, and external factors include changes in market interest rates, competition and the shape of the interest rate yield curve. The increase in our net interest margin is primarily the result of our decreasing deposit costs from the benefit received on our interest rate derivatives, as well as the continued increase to our loan yields.

Average Balances, Interest and Yields

The following tables present, for the three and nine months ended September 30, 2024 and 2023, 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.

	Three Months Ended September 30,					
	2024			2023		
(Dollars in thousands)	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate
Earning Assets:						
Federal funds sold and other investments[1]	$ 220,826	$ 3,308	5.96 %	$ 200,245	$ 2,807	5.56 %
Investment securities	31,309	189	2.40	32,172	207	2.55
Total investments	252,135	3,497	5.52	232,417	3,014	5.14
Construction and development	14,170	302	8.48	30,584	442	5.73
Commercial real estate	740,720	17,132	9.20	647,244	14,435	8.85
Commercial and industrial	64,584	1,593	9.81	61,774	1,488	9.56
Residential real estate	2,295,573	31,267	5.42	2,289,428	29,296	5.08
Consumer and other	394	42	42.41	201	34	67.11
Gross loans[2]	3,115,441	50,336	6.43	3,029,231	45,695	5.98
Total earning assets	3,367,576	53,833	6.36	3,261,648	48,709	5.92
Noninterest-earning assets	207,093			214,834		
Total assets	3,574,669			3,476,482		
Interest-bearing liabilities:						
NOW and savings deposits	119,759	770	2.56	125,078	381	1.21
Money market deposits	982,517	6,156	2.49	1,036,955	11,709	4.48
Time deposits	1,057,956	12,676	4.77	966,408	9,646	3.96
Total interest-bearing deposits	2,160,232	19,602	3.61	2,128,441	21,736	4.05
Borrowings	375,677	3,942	4.17	325,025	2,819	3.44
Total interest-bearing liabilities	2,535,909	23,544	3.69	2,453,466	24,555	3.97
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	542,939			555,074		
Other noninterest-bearing liabilities	87,156			94,528		
Total noninterest-bearing liabilities	630,095			649,602		
Shareholders' equity	408,665			373,414		
Total liabilities and shareholders' equity	$ 3,574,669			$ 3,476,482		
Net interest income		$ 30,289			$ 24,154	
Net interest spread			2.67			1.95
Net interest margin			3.58			2.94

(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.

(Dollars in thousands)	Nine Months Ended September 30, 2024 Average Balance	2024 Interest and Fees	2024 Yield / Rate	2023 Average Balance	2023 Interest and Fees	2023 Yield / Rate
Earning Assets:						
Federal funds sold and other investments(1)	$ 187,398	$ 8,729	6.22 %	$ 167,411	$ 7,057	5.64 %
Investment securities	31,428	590	2.51	32,547	583	2.39
Total investments	218,826	9,319	5.69	199,958	7,640	5.11
Construction and development	16,871	1,127	8.92	36,658	1,520	5.54
Commercial real estate	731,573	50,270	9.18	657,700	42,776	8.70
Commercial and industrial	66,116	4,894	9.89	52,292	3,637	9.30
Residential real estate	2,332,271	94,565	5.42	2,287,788	86,495	5.05
Consumer and other	311	124	53.26	174	88	67.62
Gross loans(2)	3,147,142	150,980	6.41	3,034,612	134,516	5.93
Total earning assets	3,365,968	160,299	6.36	3,234,570	142,156	5.88
Noninterest-earning assets	214,756			190,616		
Total assets	3,580,724			3,425,186		
Interest-bearing liabilities:						
NOW and savings deposits	140,539	2,852	2.71	150,849	1,869	1.66
Money market deposits	1,019,394	21,984	2.88	991,048	31,738	4.28
Time deposits	1,034,256	36,606	4.73	923,891	25,309	3.66
Total interest-bearing deposits	2,194,189	61,442	3.74	2,065,788	58,916	3.81
Borrowings	362,965	10,771	3.96	366,112	7,883	2.88
Total interest-bearing liabilities	2,557,154	72,213	3.77	2,431,900	66,799	3.67
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	536,807			564,233		
Other noninterest-bearing liabilities	90,459			69,078		
Total noninterest-bearing liabilities	627,266			633,311		
Shareholders' equity	396,304			359,975		
Total liabilities and shareholders' equity	$ 3,580,724			$ 3,425,186		
Net interest income		$ 88,086			$ 75,357	
Net interest spread			2.59			2.21
Net interest margin			3.50			3.11

(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.

	Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023		
	Increase (Decrease) Due to Change in:		
(Dollars in thousands)	Volume	Yield/Rate	Total Change
Earning assets:			
Federal funds sold and other investments [1]	$ 320	$ 181	$ 501
Investment securities	(79)	61	(18)
Total investments	241	242	483
Construction and development	(292)	152	(140)
Commercial real estate	2,096	601	2,697
Commercial and industrial	70	35	105
Residential real estate	166	1,805	1,971
Consumer and Other	2	6	8
Gross loans[2]	2,042	2,599	4,641
Total earning assets	2,283	2,841	5,124
Interest-bearing liabilities:			
NOW and savings deposits	(52)	441	389
Money market deposits	(518)	(5,035)	(5,553)
Time deposits	980	2,050	3,030
Total interest-bearing deposits	410	(2,544)	(2,134)
Borrowings	438	685	1,123
Total interest-bearing liabilities	848	(1,859)	(1,011)
Net interest income	$ 1,435	$ 4,700	$ 6,135

(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.

(Dollars in thousands)	Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023 Increase (Decrease) Due to Change in: Volume	Yield/Rate	Total Change
Earning assets:			
Federal funds sold and other investments [1]	$ 931	$ 741	$ 1,672
Investment securities	(163)	170	7
Total investments	768	911	1,679
Construction and development	(916)	523	(393)
Commercial real estate	5,116	2,378	7,494
Commercial and industrial	1,032	225	1,257
Residential real estate	2,000	6,070	8,070
Consumer and Other	22	14	36
Gross loans[2]	7,254	9,210	16,464
Total earning assets	8,022	10,121	18,143
Interest-bearing liabilities:			
NOW and savings deposits	(224)	1,207	983
Money market deposits	1,262	(11,016)	(9,754)
Time deposits	3,399	7,898	11,297
Total interest-bearing deposits	4,437	(1,911)	2,526
Borrowings	(68)	2,956	2,888
Total interest-bearing liabilities	4,369	1,045	5,414
Net interest income	$ 3,653	$ 9,076	$ 12,729

(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.

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.

We recorded a provision for credit losses of $582,000 and $314,000 during the three and nine months ended September 30, 2024 compared to a credit to the provision for credit losses of $381,000 and $797,000 during the three and nine months ended September 30, 2023. The provision expense recorded during the nine months ended September 30, 2024 was primarily due to the increase in reserves allocated to our individually analyzed loans, as well as the increase in general reserves allocated to our commercial real estate loan portfolio due to higher loan balances, partially offset by the decrease in the general reserves allocated to our residential mortgage loan portfolio as a large amount of residential mortgage loans were sold during the period. Our ACL as a percentage of gross loans for the periods ended September 30, 2024, December 31, 2023 and September 30, 2023 was 0.60%, 0.57% and 0.58%, respectively. Our ACL as a percentage 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.

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

Noninterest Income

Noninterest income for the three months ended September 30, 2024 was $6.6 million, an increase of $4.0 million, or 149.0%, compared to $2.7 million for the three months ended September 30, 2023. Noninterest income for the nine months ended September 30, 2024 was $17.7 million, an increase of $4.3 million, or 31.5%, compared to $13.5 million for the nine months ended September 30, 2023.

The following table sets forth the major components of our noninterest income for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in thousands)	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
Noninterest income:								
Service charges on deposit accounts	$ 531	$ 490	$ 41	8.4 %	$ 1,510	$ 1,403	$ 107	7.6 %
Other service charges, commissions and fees	1,915	1,478	437	29.6	5,100	3,618	1,482	41.0
Gain on sale of residential mortgage loans	526	—	526	100.0	1,925	—	1,925	100.0
Mortgage servicing income, net	422	(85)	507	596.5	1,758	(232)	1,990	857.8
Gain on sale of SBA loans	1,083	244	839	343.9	2,134	3,267	(1,133)	(34.7)
SBA servicing income, net	1,231	270	961	355.9	3,287	3,472	(185)	(5.3)
Other income	907	260	647	248.8	2,028	1,964	64	3.3
Total noninterest income	$ 6,615	$ 2,657	$ 3,958	149.0 %	$ 17,742	$ 13,492	$ 4,250	31.5 %

Service charges on deposit accounts increased $41,000, or 8.4%, to $531,000 for the three months ended September 30, 2024 compared to $490,000 for the same three months during 2023. Service charges on deposit accounts were $1.5 million for the nine months ended September 30, 2024 compared to $1.4 million for the same period in 2023, an increase of $107,000, or 7.6%. These increases were primarily attributable to higher overdraft fees and wire transfer fees, offset by lower analysis charges.

Other service charges, commissions and fees increased $437,000, or 29.6%, to $1.9 million for the three months ended September 30, 2024 compared to $1.5 million for the three months ended September 30, 2023. Other service charges, commissions and fees increased $1.5 million, or 41.0%, to $5.1 million for the nine months ended September 30, 2024 compared to $3.6 million for the nine months ended September 30, 2023. These increases were mainly attributable to higher origination, underwriting and processing fees earned from our origination of residential mortgage loans as mortgage volume increased during the three and nine months ended September 30, 2024 compared to the same periods in 2023. Mortgage loan originations totaled $122.4 million and $310.4 million during the three and nine months ended September 30, 2024 compared to $91.9 million and $208.1 million during the same periods in 2023.

Total gain on sale of loans was $1.6 million for the three months ended September 30, 2024 compared to $244,000 for the same period of 2023, an increase of $1.4 million, or 559.4%. Total gain on sale of loans was $4.1 million for the nine months ended September 30, 2024 compared to $3.3 million for the same period of 2023, an increase of $792,000, or 24.2%.

Gain on sale of residential mortgage loans totaled $526,000 and $1.9 million for the three and nine months ended September 30, 2024 as we sold $54.2 million and $187.5 million in residential mortgage loans during these periods with an average premium of 1.05%. We recorded no gain on sale of residential mortgage loans during the three and nine months ended September 30, 2023 as no mortgage loans were sold during the period.

Gain on sale of SBA loans totaled $1.1 million and $2.1 million for the three and nine months ended September 30, 2024 compared to $244,000 and $3.3 million for the same periods in 2023. We sold $28.9 million and $52.9 million in SBA loans during the three and nine months ended September 30, 2024 with average premiums of 6.67% and 6.69%, respectively. We sold $5.2 million and $71.9 million in SBA loans during the three and nine months ended September 30, 2023 with average premiums of 6.00% and 6.09%, respectively.

Mortgage loan servicing income, net of amortization, increased by $507,000, or 596.5%, to $422,000 during the three months ended September 30, 2024 compared to an expense balance of $85,000 for the same period of 2023. Mortgage loan servicing income increased by $2.0 million, or 857.8%, to $1.8 million during the nine months ended September 30, 2024 compared to an expense balance of $232,000 for the same period of 2023. The changes in mortgage loan servicing income were primarily due to decreases in mortgage servicing amortization and an increase in capitalized mortgage servicing assets, partially offset by the decrease in mortgage servicing fees. Included in mortgage loan servicing income for the three and nine months ended September 30, 2024 was $580,000 and $1.7 million in mortgage servicing fees compared to $606,000 and $1.9 million for the same periods in 2023 and capitalized mortgage servicing assets of $310,000 and $1.2 million for the three and nine months ended September 30, 2024 compared to $0 for the same periods in 2023. These amounts were offset by mortgage loan servicing asset amortization of $216,000 and $957,000 for the three and nine months ended September 30, 2024 compared to $691,000 and $2.2 million during the three and nine months ended September 30, 2023. During the three and nine months ended September 30, 2024, we recorded a fair value impairment of $252,000 on our mortgage servicing assets. During the three and nine months ended September 30, 2023, we did not record a fair value impairment on our mortgage servicing assets. Our total residential mortgage loan servicing portfolio was $556.4 million at September 30, 2024 compared to $464.8 million at September 30, 2023.

SBA servicing income increased by $961,000, or 355.9%, to $1.2 million for the three months ended September 30, 2024 compared to $270,000 for the three months ended September 30, 2023. SBA servicing income was $3.3 million for the nine months ended September 30, 2024 compared to $3.5 million for the same period in 2023, a decrease of $185,000, or 5.3%. Our total SBA and USDA loan servicing portfolio was $487.4 million as of September 30, 2024 compared to $487.8 million as of September 30 2023. Included in SBA servicing income for the three and nine months ended September 30, 2024 was $1.0 million and $3.2 million in SBA servicing fees compared to $1.2 million and $3.4 million for the same periods in 2023. Our SBA servicing rights are carried at fair value and the inputs used to calculate fair value change from period to period. During the three months ended September 30, 2024, we recorded a $201,000 fair value increase to our SBA servicing rights compared to a $911,000 fair value charge to our SBA servicing rights during the three months ended September 30, 2023. During the nine months ended September 30, 2024, we recorded a $69,000 fair value increase to our SBA servicing rights compared to a $58,000 fair value increase during the nine months ended September 30, 2023.

Other noninterest income increased by $647,000, or 248.8%, to $907,000 for the three months ended September 30, 2024 compared to $260,000 for the three months ended September 30, 2023. Other noninterest income was $2.0 million for the nine months ended September 30, 2024 compared to $2.0 million for the same period in 2023, an increase of $64,000, or 3.3%. The increases were mainly due to increases in bank owned life insurance income and unrealized gains on our equity securities. These increases were partially offset by decreases in gain on sale of foreclosed real estate as a $547,000 gain on sale was recorded during the nine months ended September 30, 2023 compared to a $85,000 loss on sale being recorded during the nine months ended September 30, 2024. The largest component of other noninterest income is the income on bank owned life insurance which totaled $609,000 and $1.7 million, respectively, for the three and nine months ended September 30, 2024 compared to $452,000 and $1.3 million, respectively, for the three and nine months ended September 30, 2023. Included in other noninterest income are fair value gains/losses on our equity securities, which totaled $292,000 (gain) and $233,000 (gain) for the three and nine months ended September 30, 2024, respectively, compared to $245,000 (loss) and $187,000 (loss) for the same periods in 2023, respectively.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2024 was $13.7 million compared to $11.5 million for the three months ended September 30, 2023, an increase of $2.1 million, or 18.4%. Noninterest expense for the nine months ended September 30, 2024 was $39.1 million compared to $33.8 million for the nine months ended September 30, 2023, an increase of $5.2 million, or 15.5%.

The following table sets forth the major components of our noninterest expense for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in thousands)	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
Noninterest Expense:								
Salaries and employee benefits	$ 8,512	$ 6,864	$ 1,648	24.0 %	$ 23,930	$ 20,333	$ 3,597	17.7 %
Occupancy and equipment	1,430	1,272	158	12.4	4,118	3,525	593	16.8
Data processing	311	300	11	3.7	958	928	30	3.2
Advertising	145	143	2	1.4	474	454	20	4.4
Other expenses	3,262	2,961	301	10.2	9,573	8,571	1,002	11.7
Total noninterest expense	$ 13,660	$ 11,540	$ 2,120	18.4 %	$ 39,053	$ 33,811	$ 5,242	15.5 %

Salaries and employee benefits expense for the three months ended September 30, 2024 was $8.5 million compared to $6.9 million for the three months ended September 30, 2023, an increase of $1.6 million, or 24.0%. Salaries and employee benefits expense for the nine months ended September 30, 2024 was $23.9 million compared to $20.3 million for the nine months ended September 30, 2023, an increase of $3.6 million, or 17.7%. These increases were partially attributable to higher employee salaries, restricted stock expense and employee insurance, as well as higher commissions paid to our loan officers as loan volume increased during the three and nine months ended September 30, 2024 compared to the same periods in 2023.

Occupancy and equipment expense for the three months ended September 30, 2024 was $1.4 million compared to $1.3 million for the three months ended September 30, 2023, an increase of $158,000, or 12.4%. Occupancy and equipment expense for the nine months ended September 30, 2024 was $4.1 million compared to $3.5 million for the nine months ended September 30, 2023, an increase of $593,000, or 16.8%. These increases were primarily due to higher maintenance and service expense, rent expense, and depreciation expense.

Data processing expenses for the three and nine months ended September 30, 2024 remained relatively flat compared to the same periods in 2023.

Advertising expenses for the three and nine months ended September 30, 2024 remained relatively flat compared to the same periods in 2023.

Other expenses for the three months ended September 30, 2024 were $3.3 million compared to $3.0 million for the three months ended September 30, 2023, an increase of $301,000, or 10.2%. This increase was partially due to higher security expense and other real estate owned related expenses, offset by lower FDIC insurance premiums and professional fees. Other operating expenses for the nine months ended September 30, 2024 were $9.6 million compared to $8.6 million for the nine months ended September 30, 2023, an increase of $1.0 million, or 11.7%. This increase was partially due to higher FDIC insurance premiums, audit expense, security expense and other real estate owned expenses, partially offset by lower loan related expenses and legal fees. Included in other expenses for the nine months ended September 30, 2024 and 2023 were directors' fees of approximately $477,000 and $452,000, respectively.

Income Tax Expense

Income tax expense for the three months ended September 30, 2024 and 2023 was $6.0 million and $4.2 million, respectively. The Company's effective tax rates were 26.3% and 27.0% for the three months ended September 30, 2024 and 2023, respectively.

Income tax expense for the nine months ended September 30, 2024 and 2023 was $18.2 million and $15.6 million, respectively. The Company's effective tax rates were 27.4% and 27.9% for the nine months ended September 30, 2024 and 2023, respectively.

Financial Condition

Total assets increased $66.4 million, or 1.9%, to $3.57 billion at September 30, 2024 as compared to $3.50 billion at December 31, 2023. The increase in total assets was primarily attributable to increases in cash and due from banks of $136.6 million, federal funds sold of $9.8 million and Federal Home Loan Bank stock of $2.4 million, partially offset by decreases in loans held for investment of $54.3 million, loans held for sale of $17.7 million and interest rate derivatives of $12.9 million.

Our investment securities portfolio made up only 0.81% of our total assets at September 30, 2024 compared to 0.82% at December 31, 2023.

Loans

Gross loans held for investment decreased $55.5 million, or 1.8%, to $3.10 billion as of September 30, 2024 as compared to $3.15 billion as of December 31, 2023. Our loan decrease during the nine months ended September 30, 2024 was comprised of a decrease of $6.7 million, or 28.9%, in construction and development loans, an increase of $27.8 million, or 3.9%, in commercial real estate loans, a decrease of $2.3 million, or 3.5%, in commercial and industrial loans, a decrease of $74.1 million, or 3.2%, in residential real estate loans and a decrease of $104,000, or 32.6%, in consumer and other loans. We had loans held for sale of $4.6 million as of September 30, 2024 compared to $22.3 million as of December 31, 2023.

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

	September 30, 2024		December 31, 2023	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total
Construction and development	$ 16,539	0.5 %	$ 23,262	0.7 %
Commercial real estate	738,929	23.9 %	711,177	22.6 %
Commercial and industrial	63,606	2.1 %	65,904	2.1 %
Residential real estate	2,276,210	73.5 %	2,350,299	74.6 %
Consumer and other	215	— %	319	— %
Gross loans	$ 3,095,499	100.0 %	$ 3,150,961	100.0 %
Less unearned income	(7,673)		(8,856)	
Total loans held for investment	$ 3,087,826		$ 3,142,105	

SBA and USDA Loan Servicing

As of September 30, 2024 and December 31, 2023, we serviced $487.4 million and $508.0 million, respectively, in SBA and USDA loans for others. We carried a servicing asset of $7.3 million at both September 30, 2024 and December 31, 2023, respectively. See Note 4 of our consolidated financial statements as of September 30, 2024, included elsewhere in this Form 10-Q, for additional information on the activity for SBA and USDA loan servicing rights for the three and nine months ended September 30, 2024 and 2023.

Residential Mortgage Loan Servicing

As of September 30, 2024, we serviced $556.4 million in residential mortgage loans for others compared to $443.1 million as of December 31, 2023. We carried a servicing asset, net of amortization, of $1.3 million at both September 30, 2024 and December 31, 2023, respectively. Amortization relating to the mortgage loan servicing asset was $216,000 and $957,000 for the three and nine months ended September 30, 2024, respectively, compared to $691,000 and $2.2 million for the same periods in 2023. During the three and nine months ended September 30, 2024, we recorded a fair value impairment of $252,000 on our mortgage servicing asset. During the three and nine months ended September 30, 2023, we did not record a fair value impairment on our mortgage servicing asset. See Note 5 of our consolidated financial statements as of September 30, 2024, included elsewhere in this Form 10-Q, for additional information on the activity for mortgage loans servicing rights for the three and nine months ended September 30, 2024 and 2023.

Asset Quality

Nonperforming Loans

Asset quality remained strong during the third quarter of 2024 as our nonperforming loans to total loans remained low at 0.46% as of September 30, 2024. Nonperforming loans were $14.3 million at September 30 2024 compared to $14.7 million at December 31, 2023. The decrease from December 31, 2023 to September 30, 2024 was attributable to a $366,000 decrease in nonaccrual loans. We did not recognize any interest income on nonaccrual loans during the nine months ended September 30, 2024 or the year ended December 31, 2023.

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 and loans past due 90 days or more and still accruing interest. Nonperforming assets consist of nonperforming loans plus OREO. Nonaccrual loans at September 30, 2024 comprised of $537,000 of commercial real estate loans, $189,000 of commercial and industrial loans and $13.6 million of residential real estate loans. Nonaccrual loans at December 31, 2023 comprised of $548,000 of construction and development loans, $991,000 of commercial real estate loans, $1.3 million of commercial and industrial loans, and $11.9 million of residential real estate loans.

(Dollars in thousands)	September 30, 2024	December 31, 2023
Nonaccrual loans	$ 14,316	$ 14,682
Past due loans 90 days or more and still accruing	—	—
Total nonperforming loans	14,316	14,682
Foreclosed real estate	1,515	1,466
Total nonperforming assets	$ 15,831	$ 16,148
Nonperforming loans to gross loans	0.46 %	0.47 %
Nonperforming assets to total assets	0.44 %	0.46 %
Allowance for credit losses to nonperforming loans	129.85 %	123.36 %

Allowance for Credit Losses

The allowance for credit losses was $18.6 million at September 30, 2024 compared to $18.1 million at December 31, 2023, an increase of $477,000, or 2.6%. The increase was primarily due to the increase in reserves allocated to our individually analyzed loans, as well as the increase in general reserves allocated to our commercial real estate loan portfolio due to higher loan balances, partially offset by the decrease in the general reserves allocated to our residential mortgage loan portfolio as a large amount of residential mortgage loans were sold during the nine months ended September 30, 2024.

We maintain a reserve for credit losses that consists of two components, the allowance for credit losses and the allowance 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 for impairment 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 $216,000 as of September 30, 2024 compared to $294,000 as of September 30, 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 September 30, 2024, included elsewhere in this Form 10-Q, 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 expected 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 credit losses and net charge-offs for the periods presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Balance, beginning of period	$ 17,960	$ 18,091	$ 18,112	$ 13,888
CECL adoption (Day 1) impact	—	—	—	5,055
Charge-offs:				
Construction and development	—	—	—	—
Commercial real estate	—	—	—	231
Commercial and industrial	28	—	28	221
Residential real estate	—	—	—	—
Consumer and other	—	—	—	—
Total charge-offs	28	—	28	452
Recoveries:				
Construction and development	—	—	—	—
Commercial real estate	—	1	83	4
Commercial and industrial	4	3	8	18
Residential real estate	—	—	—	—
Consumer and other	—	—	—	—
Total recoveries	4	4	91	22
Net (recoveries)/charge-offs	24	(4)	(63)	430
Provision for loan losses	653	(435)	414	(853)
Balance, end of period	$ 18,589	$ 17,660	$ 18,589	$ 17,660
Total loans at end of period [(1)]	$ 3,095,499	$ 3,038,458	$ 3,095,499	$ 3,038,458
Average loans[(1)]	3,113,142	3,029,231	3,122,273	3,034,612
Net charge-offs to average loans	0.00 %	(0.00)%	(0.00)%	0.02 %
Allowance for credit losses to total loans	0.60 %	0.58 %	0.60 %	0.58 %

(1) Excludes loans held for sale.

Management believes the allowance for credit losses is adequate to provide for losses expected in the loan portfolio as of September 30, 2024.

Deposits

Total deposits decreased $7.8 million, or 0.3%, to $2.72 billion at September 30, 2024 compared to $2.73 billion at December 31, 2023. The decrease was due to a $63.1 million decrease in money market accounts (includes a $23.1 million decrease in brokered money markets), a $41.4 million decrease in interest-bearing demand deposits and a $2.2 million decrease in savings accounts, offset by a $58.5 million increase in time deposits and a $40.4 million increase in noninterest-bearing deposits. As of September 30, 2024 and December 31, 2023, 20.3% and 18.7% of total deposits, respectively, were comprised of noninterest-bearing demand accounts and 79.7% and 81.3%, respectively, of interest-bearing deposit accounts.

As of September 30, 2024 and December 31, 2023, the Company had estimated uninsured deposits of $648.8 million and $730.5 million, respectively. These estimates were derived using the same methodologies and assumptions used for the Bank's regulatory reporting. Uninsured deposits were 23.6% of total deposits at September 30, 2024, compared to 26.5% and 27.3% at December 31, 2023 and September 30, 2023, respectively. As of September 30, 2024, we had $1.28 billion of available borrowing capacity at the Federal Home Loan Bank ($701.6 million), Federal Reserve Discount Window ($532.2 million) and various other financial institutions (fed fund lines totaling $47.5 million).

We had $751.0 million of brokered deposits, or 27.6% of total deposits, at September 30, 2024 compared to $766.3 million, or 28.1% of total deposits, at December 31, 2023. 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 September 30, 2024, the total amount of deposits tied to the Federal Funds Effective Rate was $903.8 million. See Note 8 of our consolidated financial statements as of September 30, 2024, included elsewhere in this Form 10-Q, for additional information.

The following table summarizes our average deposit balances and weighted average rates for the three and nine months ended September 30, 2024 and 2023.

	Three Months Ended September 30,			
	2024		2023	
(Dollars in thousands)	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Noninterest-bearing demand	$ 542,939	— %	$ 555,074	— %
Interest-bearing demand deposits	108,235	2.77	111,432	1.34
Savings and money market deposits	297,624	3.98	594,664	3.45
Brokered money market deposits	696,417	1.82	455,937	5.68
Time deposits	1,057,956	4.77	966,408	3.96
Total interest-bearing deposits	2,160,232	3.61	2,128,441	4.05
Total deposits	$ 2,703,171	2.88	$ 2,683,515	3.21

(Dollars in thousands)	Nine Months Ended September 30, 2024 Average Balance	2024 Weighted Average Rate	2023 Average Balance	2023 Weighted Average Rate
Noninterest-bearing demand	$ 536,807	— %	$ 564,233	— %
Interest-bearing demand deposits	129,226	2.92	135,576	1.82
Savings and money market deposits	312,639	3.92	567,433	3.35
Brokered money market deposits	718,068	2.38	438,888	5.34
Time deposits	1,034,256	4.73	923,891	3.66
Total interest-bearing deposits	2,194,189	3.74	2,065,788	3.81
Total deposits	$ 2,730,996	3.01	$ 2,630,021	3.00

The weighted average rates shown in the tables above are inclusive of the benefit received from the interest rate derivatives that hedge our deposit accounts tied to the federal funds effective rate. During the three months ended September 30, 2024, we recorded a credit to interest expense of $6.4 million from the benefit received on these interest rate derivatives compared to a credit to interest expense of $1.3 million recorded during the three months ended September 30, 2023. During the nine months ended September 30, 2024, we recorded a credit to interest expense of $17.0 million from the benefit received on these interest rate derivatives compared to a credit to interest expense of $2.3 million recorded during the nine months ended September 30, 2023. These benefits resulted in a 95 basis points and 83 basis points reduction to the total deposits weighted average rate for the three and nine months ended September 30, 2024, respectively, compared to a 19 basis points and 12 basis points reduction for the three and nine months ended September 30, 2023, respectively.

Borrowed Funds

Other than deposits, we also utilized FHLB advances as a supplementary funding source to finance our operations. The advances from the FHLB are collateralized by residential real estate loans. At September 30, 2024 and December 31, 2023, we had available borrowing capacity from the FHLB of $701.6 million and $721.1 million, respectively. At September 30, 2024 and December 31, 2023, we had $375.0 million and $325.0 million, respectively, of outstanding advances from the FHLB.

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 September 30, 2024 and December 31, 2023. We did not have any advances outstanding under these agreements as of September 30, 2024 and December 31, 2023. We also have access to the Federal Reserve's discount window in the amount of $532.2 million and $446.3 million at September 30, 2024 and December 31, 2023, respectively. No discount window borrowings were outstanding as of September 30, 2024 and December 31, 2023. We also maintain relationships in the capital markets with brokers to issue certificates of deposit and money market accounts.

Liquidity and Capital Resources

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 September 30, 2024 and December 31, 2023, 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 $532.2 million and $446.3 million at September 30, 2024 and December 31, 2023, 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 $631.1 million as of September 30, 2024, as well as all of the Company's municipal and mortgage backed securities. There were no outstanding borrowings on this line as of September 30, 2024 and December 31, 2023.

At September 30, 2024 and December 31, 2023, we had $375.0 million and $325.0 million, respectively, of outstanding advances from the FHLB. Based on the values of loans pledged as collateral, we had $701.6 million and $721.1 million of additional borrowing availability with the FHLB as of September 30, 2024 and December 31, 2023, 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.

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 September 30, 2024 and December 31, 2023. The Bank exceeded all regulatory capital requirements and was considered to be "well-capitalized" as of September 30, 2024 and December 31, 2023. 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.

	September 30, 2024	December 31, 2023	Regulatory Capital Ratio Requirements including fully phased-in Capital Conservation Buffer	Minimum Requirement for "Well Capitalized" Depository Institution
Total capital (to risk-weighted assets)				
Consolidated	20.03 %	17.60 %	10.50 %	N/A
Bank	19.94 %	17.51 %	10.50	10.00 %
Tier 1 capital (to risk-weighted assets)				
Consolidated	19.12 %	16.73 %	8.50 %	N/A
Bank	19.03 %	16.64 %	8.50	8.00 %
CET1 capital (to risk-weighted assets)				
Consolidated	19.12 %	16.73 %	7.00 %	N/A
Bank	19.03 %	16.64 %	7.00	6.50 %
Tier 1 capital (to average assets)				
Consolidated	11.12 %	10.20 %	4.00 %	N/A
Bank	11.07 %	10.15 %	4.00	5.00 %

Dividends

On October 16, 2024, the Company declared a cash dividend of $0.23 per share, payable on November 8, 2024, to common shareholders of record as of October 30, 2024. 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.

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.

See Note 9 of our consolidated financial statements as of September 30, 2024, included elsewhere in this Form 10-Q, for more information regarding our off-balance sheet arrangements as of September 30, 2024 and December 31, 2023.

Item 3. 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 Federal funds effective (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 interest rate risk. 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 simulations comparing current or flat rates with a +/- 200 basis point ramp in rates over 12 and 24 months. These rate scenarios are considered appropriate as we believe they represent a more realistic range of rate movements that could occur in the near to medium term. 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 September 30, 2024 and December 31, 2023 are presented in the following table:

	Net Interest Income Sensitivity			
	12 Month Projection		24 Month Projection	
(Ramp in basis points)	**+200**	**-200**	**+200**	**-200**
September 30, 2024	1.70 %	(4.10)%	(4.00)%	(6.20)%
December 31, 2023	(0.90)%	0.00 %	1.50 %	7.80 %

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, and 300 basis points. The results of the model are presented in the table below:

	Economic Value of Equity Sensitivity					
(Shock in basis points)	**+300**	**+200**	**+100**	**-100**	**-200**	**-300**
September 30, 2024	(11.80)%	(7.30)%	(2.90)%	2.30 %	2.50 %	(0.70)%
December 31, 2023	(22.20)%	(15.00)%	(7.50)%	9.40 %	18.60 %	26.10 %

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 4. 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 Exchange Act) as of September 30, 2024. 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 September 30, 2024.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2024, there was no change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to various legal proceedings such as claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of September 30, 2024 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Part I – Item 1A – Risk Factors" of the Company's 2023 Form 10-K, which could materially affect its business, financial position, results of operations, cash flows, or future results. Please be aware that these risks may change over time and other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our business, financial condition or results of operations, or the trading price of our securities.

There are no material changes during the period covered by this Report to the risk factors previously disclosed in the Company's 2023 Form 10-K.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

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 ended on September 30, 2024. The repurchases are made in compliance with all Securities and Exchange Commission rules, including Rule 10b-18, and other legal requirements and may be made in part under Rule 10b5-1 plans, which permits stock 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 September 30, 2024.

	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
July 1, 2024 to July 31, 2024	—	$ —	—	925,250
August 1, 2024 to August 31, 2024	—	—	—	925,250
September 1, 2024 to September 30, 2024	—	—	—	925,250
Total	—	$ —	—	925,250

On October 16, 2024, the Company announced the continuation of its share repurchase program that expired on September 30, 2024 ("Prior Share Repurchase Plan"), and authorized the Company to repurchase up to 925,250 shares of the Company's outstanding shares of common stock, which is the number of remaining shares authorized for repurchase from the Prior Share Repurchase Plan. The share repurchase program began on October 17, 2024 and ends on September 30, 2025. The repurchases will be made in compliance with all Securities and Exchange Commission rules, including Rule 10b-18, and other legal requirements and may be made in part under Rule 10b5-1 plans, which permits stock 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 and does not obligate the Company to purchase any shares of its common stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

During the third quarter of 2024, 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 6. 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)
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
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

SIGNATURES

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

	METROCITY BANKSHARES, INC.
Date: November 8, 2024	By: /s/ Nack Y. Paek Nack Y. Paek Chief Executive Officer
Date: November 8, 2024	By: /s/ Lucas Stewart Lucas Stewart Chief Financial Officer

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 Quarterly Report on Form 10-Q 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: November 8, 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 Quarterly Report on Form 10-Q 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: November 8, 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 Quarterly Report of MetroCity Bankshares, Inc. (the “Corporation”) on Form 10-Q for the period ended September 30, 2024, 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.

Dated: November 8, 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 Quarterly Report of MetroCity Bankshares, Inc. (the "Corporation") on Form 10-Q for the period ended September 30, 2024, 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.

Dated: November 8, 2024

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