REFINITIV

DELTA REPORT

10-Q

MCBS - METROCITY BANKSHARES, INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1107
CHANGES	606
DELETIONS	199
ADDITIONS	302

REFINITIV

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June September 30, 2023

OR

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

For the transition period from _______ to _______

Commission File Number 001-39068

METROCITY BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Georgia	**47-2528408**
(State or other jurisdiction of	(I.R.S. Employer
5114 Buford Highway	**30340**
(Address of principal executive offices)	(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 August 1, 2023 November 1, 2023, the registrant had 25,279,846 25,206,085 shares of common stock, par value $0.01 per share, issued and outstanding.

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METROCITY BANKSHARES, INC.
Quarterly Report on Form 10-Q
June September 30, 2023

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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)

	June 30, 2023 (Unaudited)	December 31, 2022
Assets:		
Cash and due from banks	$ 250,503	$ 150,964
Federal funds sold	12,224	28,521
Cash and cash equivalents	262,727	179,485
Equity securities	10,358	10,300
Securities available for sale	18,696	19,245
Loans, less allowance for credit losses of $18,091 and $13,888, respectively	3,002,623	3,041,801
Accrued interest receivable	13,877	13,171
Federal Home Loan Bank stock	15,534	17,493
Premises and equipment, net	16,374	14,257
Operating lease right-of-use asset	7,761	8,463
Foreclosed real estate, net	1,001	4,328
SBA servicing asset	8,018	7,085
Mortgage servicing asset, net	2,514	3,973
Bank owned life insurance	70,010	69,130
Interest rate derivatives	39,284	28,781
Other assets	6,310	9,727
Total assets	$ 3,475,087	$ 3,427,239
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 575,301	$ 611,991
Interest-bearing	2,123,181	2,054,847
Total deposits	2,698,482	2,666,838
Federal Home Loan Bank advances	325,000	375,000
Other borrowings	387	392
Operating lease liability	7,985	8,885
Accrued interest payable	3,859	2,739
Other liabilities	66,211	23,964
Total liabilities	$ 3,101,924	$ 3,077,818
Shareholders' Equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding	—	—

Common stock, $0.01 par value, 40,000,000 shares authorized, 25,279,846 and 25,169,709 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	253	252
Additional paid-in capital	45,516	45,298
Retained earnings	301,752	285,832
Accumulated other comprehensive income	25,642	18,039
Total shareholders' equity	373,163	349,421
Total liabilities and shareholders' equity	$ 3,475,087	$ 3,427,239

	September 30, 2023 (Unaudited)	December 31, 2022
Assets:		
Cash and due from banks	$ 279,106	$ 150,964
Federal funds sold	2,951	28,521
Cash and cash equivalents	282,057	179,485
Equity securities	10,113	10,300
Securities available for sale	17,664	19,245
Loans, less allowance for credit losses of $17,660 and $13,888, respectively	3,012,287	3,041,801
Accrued interest receivable	14,612	13,171
Federal Home Loan Bank stock	17,846	17,493
Premises and equipment, net	17,459	14,257
Operating lease right-of-use asset	7,340	8,463
Foreclosed real estate, net	761	4,328
SBA servicing asset	7,107	7,085
Mortgage servicing asset, net	1,823	3,973
Bank owned life insurance	70,462	69,130
Interest rate derivatives	46,502	28,781
Other assets	4,994	9,727
Total assets	$ 3,511,027	$ 3,427,239
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 559,540	$ 611,991
Interest-bearing	2,159,048	2,054,847
Total deposits	2,718,588	2,666,838
Federal Home Loan Bank advances	325,000	375,000
Other borrowings	—	392
Operating lease liability	7,537	8,885
Accrued interest payable	3,915	2,739
Other liabilities	71,283	23,964
Total liabilities	$ 3,126,323	$ 3,077,818
Shareholders' Equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 40,000,000 shares authorized, 25,241,157 and 25,169,709 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	252	252
Additional paid-in capital	45,580	45,298
Retained earnings	308,589	285,832
Accumulated other comprehensive income	30,283	18,039
Total shareholders' equity	384,704	349,421
Total liabilities and shareholders' equity	$ 3,511,027	$ 3,427,239

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Interest and dividend income:								
Loans, including fees	$ 44,839	$ 32,310	$ 88,821	$ 63,769	$45,695	$37,263	$134,516	$101,032
Other investment income	2,582	711	4,521	1,203	2,979	1,011	7,500	2,214
Federal funds sold	61	4	105	6	35	23	140	29
Total interest income	47,482	33,025	93,447	64,978	48,709	38,297	142,156	103,275
Interest expense:								
Deposits	19,804	2,384	37,180	3,523	21,736	6,964	58,916	10,487
FHLB advances and other borrowings	2,708	421	5,064	582	2,819	1,545	7,883	2,127
Total interest expense	22,512	2,805	42,244	4,105	24,555	8,509	66,799	12,614
Net interest income	24,970	30,220	51,203	60,873	24,154	29,788	75,357	90,661
Provision for credit losses	(416)	—	(416)	104	(381)	(1,703)	(797)	(1,599)
Net interest income after provision for credit losses	25,386	30,220	51,619	60,769	24,535	31,491	76,154	92,260
Noninterest income:								
Service charges on deposit accounts	464	518	913	999	490	509	1,403	1,508
Other service charges, commissions and fees	1,266	3,647	2,140	5,806	1,478	2,676	3,618	8,482
Gain on sale of residential mortgage loans	—	806	—	2,017	—	—	—	2,017
Mortgage servicing income, net	(51)	(5)	(147)	96	(85)	(358)	(232)	(262)
Gain on sale of SBA loans	1,054	—	3,023	1,568	244	500	3,267	2,068
SBA servicing income, net	1,388	(1,077)	3,202	567	270	1,330	3,472	1,897
Other income	640	764	1,646	1,256	505	444	2,151	1,700
Total noninterest income	4,761	4,653	10,777	12,309	2,902	5,101	13,679	17,410
Noninterest expense:								
Salaries and employee benefits	7,103	7,929	13,469	15,025	6,864	7,756	20,333	22,781
Occupancy and equipment	1,039	1,200	2,253	2,427	1,272	1,167	3,525	3,594
Data processing	353	261	628	538	300	270	928	808
Advertising	165	126	311	276	143	158	454	434
Other expenses	2,874	3,603	5,552	7,032	3,206	3,337	8,758	10,369
Total noninterest expense	11,534	13,119	22,213	25,298	11,785	12,688	33,998	37,986
Income before provision for income taxes	18,613	21,754	40,183	47,780	15,652	23,904	55,835	71,684

Provision for income taxes	5,505	5,654	11,345	12,251	4,224	7,011	15,569	19,262
Net income available to common shareholders	$ 13,108	$ 16,100	$ 28,838	$ 35,529	$11,428	$16,893	$ 40,266	$ 52,422
Earnings per share:								
Basic	$ 0.52	$ 0.63	$ 1.15	$ 1.40	$ 0.45	$ 0.66	$ 1.60	$ 2.06
Diluted	$ 0.51	$ 0.63	$ 1.13	$ 1.38	$ 0.45	$ 0.66	$ 1.58	$ 2.04

See accompanying notes to unaudited consolidated financial statements.

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METROCITY BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net income	$ 13,108	$ 16,100	$ 28,838	$ 35,529	$11,428	$16,893	$40,266	$52,422
Other comprehensive gain:								
Unrealized holding gains (losses) on securities available for sale	(150)	(1,330)	217	(2,814)				
Unrealized holding losses on securities available for sale					(803)	(893)	(587)	(3,707)
Net changes in fair value of cash flow hedges	16,478	4,423	11,345	11,781	7,249	19,332	18,595	31,113
Tax effect	(5,213)	(773)	(3,959)	(2,242)	(1,805)	(4,610)	(5,764)	(6,852)
Other comprehensive gain	11,115	2,320	7,603	6,725	4,641	13,829	12,244	20,554
Comprehensive income	$ 24,223	$ 18,420	$ 36,441	$ 42,254	$16,069	$30,722	$52,510	$72,976

See accompanying notes to unaudited consolidated financial statements.

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METROCITY BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(Dollars in thousands, except per share data)

	Common Stock						Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Three Months Ended:												
Balance, April 1, 2023	25,143,675	$ 251	$ 45,044	$293,139	$ 14,527	$352,961						
Balance, July 1, 2023							25,279,846	$ 253	$ 45,516	$301,752	$ 25,642	$373,163
Net income	—	—	—	13,108	—	13,108	—	—	—	11,428	—	11,428
Stock based compensation expense	—	—	474	—	—	474	—	—	825	—	—	825
Vesting of restricted stock	136,171	2	(2)	—	—	—						
Repurchase of common stock							(38,689)	(1)	(761)	—	—	(762)
Other comprehensive income	—	—	—	—	11,115	11,115	—	—	—	—	4,641	4,641
Dividends declared on common stock ($0.18 per share)	—	—	—	(4,495)	—	(4,495)	—	—	—	(4,591)	—	(4,591)
Balance, June 30, 2023	25,279,846	$ 253	$ 45,516	$301,752	$ 25,642	$373,163						
Balance, September 30, 2023							25,241,157	$ 252	$ 45,580	$308,589	$ 30,283	$384,704
Balance, April 1, 2022	25,465,236	$ 255	$ 51,753	$254,165	$ 4,237	$310,410						
Balance, July 1, 2022							25,451,125	$ 255	$ 49,831	$266,426	$ 6,557	$323,069
Net income	—	—	—	16,100	—	16,100	—	—	—	16,893	—	16,893
Stock based compensation expense	—	—	359	—	—	359	—	—	689	—	—	689
Vesting of restricted stock	101,097	1	(1)	—	—	—						
Repurchase of common stock	(115,208)	(1)	(2,280)	—	—	(2,281)	(80,708)	(1)	(1,606)	—	—	(1,607)
Other comprehensive income	—	—	—	—	2,320	2,320	—	—	—	—	13,829	13,829

Dividends declared on common stock ($0.15 per share)	—	—	—	(3,839)	—	(3,839)	—	—	—	(3,844)	—	(3,844)
Balance, June 30, 2022	25,451,125	$ 255	$ 49,831	$266,426	$ 6,557	$323,069						
Balance, September 30, 2022							25,370,417	$ 254	$ 48,914	$279,475	$ 20,386	$349,029
Six Months Ended:												
Nine Months Ended:												
Balance, January 1, 2023	25,169,709	$ 252	$ 45,298	$285,832	$ 18,039	$349,421	25,169,709	$ 252	$ 45,298	$285,832	$ 18,039	$349,421
Net income	—	—	—	28,838	—	28,838	—	—	—	40,266	—	40,266
Stock based compensation expense	—	—	772	—	—	772	—	—	1,596	—	—	1,596
Vesting of restricted stock	136,171	2	(2)	—	—	—	136,171	1	(1)	—	—	—
Repurchase of common stock	(26,034)	(1)	(552)	—	—	(553)	(64,723)	(1)	(1,313)	—	—	(1,314)
Impact of adoption of new accounting standard, net of tax(1)	—	—	—	(3,801)	—	(3,801)	—	—	—	(3,801)	—	(3,801)
Other comprehensive income	—	—	—	—	7,603	7,603	—	—	—	—	12,244	12,244
Dividends declared on common stock ($0.36 per share)	—	—	—	(9,117)	—	(9,117)						
Balance, June 30, 2023	25,279,846	$ 253	$ 45,516	$301,752	$ 25,642	$373,163						
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
Balance, January 1, 2022	25,465,236	$ 255	$ 51,559	$238,577	$ (168)	$290,223	25,465,236	$ 255	$ 51,559	$238,577	$ (168)	$290,223
Net income	—	—	—	35,529	—	35,529	—	—	—	52,422	—	52,422
Stock based compensation expense	—	—	553	—	—	553	—	—	1,242	—	—	1,242

Vesting of restricted stock	101,097	1	(1)	—	—	—	101,097	1	(1)	—	—	—
Repurchase of common stock	(115,208)	(1)	(2,280)	—	—	(2,281)	(195,916)	(2)	(3,886)	—	—	(3,888)
Other comprehensive income	—	—	—	—	6,725	6,725	—	—	—	—	20,554	20,554
Dividends declared on common stock ($0.30 per share)	—	—	—	(7,680)	—	(7,680)						
Balance, June 30, 2022	25,451,125	$ 255	$ 49,831	$266,426	$ 6,557	$323,069						
Dividends declared on common stock ($0.45 per share)							—	—	—	(11,524)	—	(11,524)
Balance, September 30, 2022							25,370,417	$ 254	$ 48,914	$279,475	$ 20,386	$349,029

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

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flow from operating activities:		
Net income	$ 28,838	$ 35,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,249	1,416
Provision for credit losses	(416)	104
Stock based compensation expense	772	553
Unrealized (gains) losses recognized on equity securities	(58)	608
(Gain) loss on sale of foreclosed real estate	(547)	15
Proceeds from sales of residential real estate loans	—	96,932
Gain on sale of residential mortgages	—	(2,017)
Origination of SBA loans held for sale	(67,803)	(23,391)
Proceeds from sales of SBA loans held for sale	70,826	24,959

Gain on sale of SBA loans	(3,023)	(1,568)
Increase in cash value of bank owned life insurance	(880)	(830)
(Increase) decrease in accrued interest receivable	(706)	62
(Increase) decrease in SBA servicing rights	(933)	2,018
Decrease in mortgage servicing rights	1,459	1,657
Decrease (increase) in other assets	951	(10,101)
Increase in accrued interest payable	1,120	499
Increase in other liabilities	41,884	19,273
Net cash flow provided by operating activities	72,733	145,718
Cash flow from investing activities:		
Proceeds from maturities, calls or paydowns of securities available for sale	731	1,489
Redemption of Federal Home Loan Bank stock	1,959	4,082
Decrease (increase) in loans, net	34,306	(360,243)
Purchases of premises and equipment	(2,629)	(339)
Proceeds from sales of foreclosed real estate owned	4,109	41
Purchase of bank owned life insurance	—	(8,000)
Net cash flow provided (used) by investing activities	38,476	(362,970)
Cash flow from financing activities:		
Dividends paid on common stock	(9,053)	(7,640)
Repurchases of common stock	(553)	(2,281)
Increase in deposits, net	31,644	133,988
Decrease in other borrowings, net	(5)	(60)
Proceeds from Federal Home Loan Bank advances	275,000	375,000
Repayments of Federal Home Loan Bank advances	(325,000)	(500,000)
Net cash flow used by financing activities	(27,967)	(993)

	Nine Months Ended September 30,	
	2023	2022
Cash flow from operating activities:		
Net income	$ 40,266	$ 52,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,960	2,665
Provision for credit losses	(797)	(1,599)
Stock based compensation expense	1,596	1,242
Unrealized losses recognized on equity securities	187	934
(Gain) loss on sale of foreclosed real estate	(547)	15
Writedown of foreclosed real estate	240	—
Proceeds from sales of residential real estate loans	—	96,932
Gain on sale of residential mortgages	—	(2,017)
Origination of SBA loans held for sale	(73,038)	(32,077)
Proceeds from sales of SBA loans held for sale	76,305	34,145
Gain on sale of SBA loans	(3,267)	(2,068)
Increase in cash value of bank owned life insurance	(1,332)	(1,260)
Increase in accrued interest receivable	(1,441)	(680)
(Increase) decrease in SBA servicing rights	(22)	1,910
Decrease in mortgage servicing rights	2,150	2,772
Decrease (increase) in other assets	462	(9,175)
Increase in accrued interest payable	1,176	1,285
Increase (decrease) in other liabilities	46,503	(1,839)
Net cash flow provided by operating activities	90,401	143,607
Cash flow from investing activities:		
Proceeds from maturities, calls or paydowns of securities available for sale	943	1,992
(Purchase) redemption of Federal Home Loan Bank stock	(353)	4,082

Decrease (increase) in loans, net	25,077	(569,300)
Purchases of premises and equipment	(3,988)	(1,429)
Proceeds from sales of foreclosed real estate owned	4,109	41
Purchase of bank owned life insurance	—	(8,000)
Net cash flow provided (used) by investing activities	25,788	(572,614)
Cash flow from financing activities:		
Dividends paid on common stock	(13,661)	(11,493)
Repurchases of common stock	(1,314)	(3,888)
Increase in deposits, net	51,750	307,833
Decrease in other borrowings, net	(392)	(63)
Proceeds from Federal Home Loan Bank advances	275,000	475,000
Repayments of Federal Home Loan Bank advances	(325,000)	(600,000)
Net cash flow used by financing activities	(13,617)	167,389

Continued to following page.

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METROCITY BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net change in cash and cash equivalents	83,242	(218,245)
Cash and cash equivalents at beginning of period	179,485	441,341
Cash and cash equivalents at end of period	$ 262,727	$ 223,096
Supplemental schedule of noncash investing and financing activities:		
Transfer of residential real estate loans to loans held for sale	$ —	$ 94,915
Transfer of loan principal to foreclosed real estate, net of write-downs	$ 235	$ —
Supplemental disclosures of cash flow information - Cash paid during the year for:		
Interest	$ 41,124	$ 3,606
Income taxes	$ 7,473	$ 14,453

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net change in cash and cash equivalents	102,572	(261,618)
Cash and cash equivalents at beginning of period	179,485	441,341

Cash and cash equivalents at end of period	$	282,057	$	179,723
Supplemental schedule of noncash investing and financing activities:				
Transfer of residential real estate loans to loans held for sale	$	—	$	94,915
Transfer of loan principal to foreclosed real estate, net of write-downs	$	235	$	766
Initial recognition of operating lease right-of-use assets	$	—	$	1,273
Initial recognition of operating lease liabilities	$	—	$	1,273
Supplemental disclosures of cash flow information - Cash paid during the year for:				
Interest	$	65,623	$	11,329
Income taxes	$	13,765	$	23,432

See accompanying notes to unaudited consolidated financial statements.

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METROCITY BANKSHARES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE SEPTEMBER 30, 2023

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 six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2022.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2022, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "Company's 2022 Form 10-K"). Aside from the adoption of ASU 2016-13 (which is further discussed below), there were no new accounting policies or changes to existing policies adopted during the first six nine months of 2023 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 June 30, 2023 September 30, 2023. Although the ultimate outcome of all claims and lawsuits outstanding as of June 30, 2023 September 30, 2023 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.

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 changes 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 will apply applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit- credit-impaired debt

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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 will need 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. Upon With its adoption, ASU 2016-13 provides 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 is 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 replaces replaced the other-than-temporary impairment model and requires 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 is 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 is was minimal. The Company has made a policy election to exclude accrued interest from the amortized cost basis of AFS securities. Accrued interest receivable for AFS securities totaled $115,000 $78,000 and $114,000 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. This accrued interest receivable is included in the "accrued interest receivable" line item on the Company's Consolidated Balance Sheets.

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

Provided that is not the case, these modifications are included in their respective cohort and the allowance for credit losses is estimated on a pooled basis consistent with the other loans with similar risk characteristics. See Note 3 below for further details.

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

The following new accounting policies were adopted during the first half of 2023: 2023 to date:

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 June 30, 2023 September 30, 2023, the Company determined that the unrealized loss positions in AFS securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded. See Note 2 below for further details.

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.

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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), local/regional economic trends and conditions, 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.

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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 $241,000$294,000 as of June 30, 2023September 30, 2023 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 June 30, 2023September 30, 2023 and December 31, 2022 are summarized as follows:

	June 30, 2023				September 30, 2023			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government entities and agencies	$ 4,790	$ —	$ —	$ 4,790	$ 4,678	$ —	$ —	$ 4,678
States and political subdivisions	8,097	—	(1,573)	6,524	8,085	—	(2,022)	6,063
Mortgage-backed GSE residential	9,067	—	(1,685)	7,382	8,963	—	(2,040)	6,923
Total	$ 21,954	$ —	$ (3,258)	$ 18,696	$21,726	$ —	$ (4,062)	$17,664

December 31, 2022

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

The amortized costs and estimated fair values of investment securities available for sale at June 30, 2023September 30, 2023 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Securities Available for Sale		Securities Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ —	$ —	$ —	$ —
Due after one year but less than five years	5,653	5,620	5,919	5,860
Due after five years but less than ten years	378	371	—	—
Due in more than ten years	6,856	5,323	6,844	4,881
Mortgage-backed GSE residential	9,067	7,382	8,963	6,923
Total	$ 21,954	$ 18,696	$ 21,726	$ 17,664

Accrued interest receivable for securities available for sale totaled $115,000$78,000 and $114,000 as of June 30, 2023September 30, 2023 and December 31, 2022, respectively. This accrued interest receivable is included in the "accrued interest receivable" line item on the Company's Consolidated Balance Sheets.

As of June 30, 2023September 30, 2023, the Company had securities pledged to the Federal Reserve Bank Discount Window with a carrying amount of $13.9 million$13.0 million. There were no securities pledged as of December 31, 2022 to secure borrowing lines, public deposits or repurchase agreements. There were no securities sold during the three or sixnine months ended June 30, 2023September 30, 2023 and 2022.

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Information pertaining to securities with gross unrealized losses at June 30, 2023September 30, 2023 and December 31, 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized in the table below.

(Dollars in thousands)	June 30, 2023				September 30, 2023			
	Twelve Months or Less		Over Twelve Months		Twelve Months or Less		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions	$ —	$ —	$ 1,573	$ 6,524	$ —	$ —	$ 2,022	$ 6,063
Mortgage-backed GSE residential	—	—	1,685	7,382	—	—	2,040	6,923
Total	$ —	$ —	$ 3,258	$ 13,906	$ —	$ —	$ 4,062	$12,986

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

At June 30, 2023 September 30, 2023, the twenty securities available for sale (11 municipal securities and 9 mortgage-backed securities) with an unrealized loss have depreciated 18.98% 23.82% 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 June 30, 2023 September 30, 2023 represent a credit loss impairment. As of June 30, 2023 September 30, 2023, there have been no payment defaults nor do we currently expect any future payment defaults. Furthermore, the Company does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Equity Securities

As of June 30, 2023 September 30, 2023 and December 31, 2022, the Company had equity securities with carrying values totaling $10.4 million $10.1 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 June 30, 2023 September 30, 2023 and 2022, we recognized unrealized losses of $70,000 $245,000 and $245,000, $327,000, respectively, in net income on our equity securities. During the six nine months ended June 30, 2023 September 30, 2023 and 2022, we recognized an unrealized gain losses of $58,000 $187,000 and an unrealized loss of $608,000, $934,000, respectively, in net income on our equity securities. These unrealized gains and losses are recorded in Other Expenses on the Consolidated Statements of Income.

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NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Major classifications of loans at June 30, 2023 September 30, 2023 and December 31, 2022 are summarized as follows:

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Construction and development	$ 51,759	$ 47,779	$ 41,783	$ 47,779
Commercial real estate	625,111	657,246	624,122	657,246
Commercial and industrial	63,502	53,173	61,332	53,173
Residential real estate	2,289,050	2,306,915	2,310,981	2,306,915
Consumer and other	102	216	240	216
Total loans receivable	3,029,524	3,065,329	3,038,458	3,065,329
Unearned income	(8,810)	(9,640)	(8,511)	(9,640)

Allowance for credit losses	(18,091)	(13,888)	(17,660)	(13,888)
Loans, net	$ 3,002,623	$ 3,041,801	$ 3,012,287	$ 3,041,801

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. Loan participations are typically sold 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 June 30, 2023, September 30, 2023 and December 31, 2022, accrued interest receivable for loans totaled $13.8 million $14.5 million and $13.1 million, respectively, and is included in the "accrued interest receivable" line item on the Company's Consolidated Balance Sheets.

Allowance for Credit Losses

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

A summary of changes in the allowance for credit losses by portfolio segment for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 is as follows:

	Three Months Ended June 30, 2023							Three Months Ended September 30, 2023				
(Dollars in thousands)	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other
Allowance for credit losses:												
Beginning balance	$ 45	$ 6,088	$ 1,021	$ 11,792	$ 1	$ —	$18,947	$ 30	$ 6,208	$ 653	$ 11,199	$ 1
Charge-offs	—	(231)	(221)	—	—	—	(452)	—	—	—	—	—
Recoveries	—	1	13	—	—	—	14	—	1	3	—	—
Provision expense	(15)	350	(160)	(593)	—	—	(418)	(3)	(13)	(22)	(400)	3
Ending balance	$ 30	$ 6,208	$ 653	$ 11,199	$ 1	$ —	$18,091	$ 27	$ 6,196	$ 634	$ 10,799	$ 4

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	Three Months Ended June 30, 2022						
(Dollars in thousands)	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 93	$ 4,294	$ 4,441	$ 7,624	$ 5	$ 217	$ 16,674

	Construction and Development	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Consumer and Other	Unallocated	Total
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	2	2	—	—	—	4
Provision expense	47	(757)	(224)	1,054	1	(121)	—
Ending balance	$ 140	$ 3,539	$ 4,219	$ 8,678	$ 6	$ 96	$ 16,678

	Three Months Ended September 30, 2022						
(Dollars in thousands)	**Construction and Development**	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer and Other**	**Unallocated**	**Total**
Allowance for credit losses:							
Beginning balance	$ 140	$ 3,539	$ 4,219	$ 8,678	$ 6	$ 96	$ 16,678
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	1	6	—	—	—	7
Provision expense	24	(510)	(1,970)	845	4	(96)	(1,703)
Ending balance	$ 164	$ 3,030	$ 2,255	$ 9,523	$ 10	$ —	$ 14,982

	Six Months Ended June 30, 2023							Nine Months Ended September 30, 2023				
(Dollars in thousands)	**Construction and Development**	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer and Other**	**Unallocated**	**Total**	**Construction and Development**	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer and Other**
Allowance for credit losses:												
Beginning balance	$ 124	$ 2,811	$ 1,326	$ 9,626	$ 1	$ —	$13,888	$ 124	$ 2,811	$ 1,326	$ 9,626	$ 1
Impact of adopting ASU 2016-13	(79)	3,275	(307)	2,166	—	—	5,055	(79)	3,275	(307)	2,166	—
Charge-offs	—	(231)	(221)	—	—	—	(452)	—	(231)	(221)	—	—
Recoveries	—	3	15	—	—	—	18	—	4	18	—	—
Provision expense	(15)	350	(160)	(593)	—	—	(418)	(18)	337	(182)	(993)	3
Ending balance	$ 30	$ 6,208	$ 653	$ 11,199	$ 1	$ —	$18,091	$ 27	$ 6,196	$ 634	$ 10,799	$ 4

	Six Months Ended June 30, 2022							Nine Months Ended September 30, 2022				
(Dollars in thousands)	**Construction and Development**	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer and Other**	**Unallocated**	**Total**	**Construction and Development**	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer and Other**
Allowance for credit losses:												
Beginning balance	$ 100	$ 4,146	$ 4,989	$ 7,717	$ —	$ —	$16,952	$ 100	$ 4,146	$ 4,989	$ 7,717	$ —
Charge-offs	—	—	(390)	—	—	—	(390)	—	—	(390)	—	—
Recoveries	—	4	3	—	5	—	12	—	5	9	—	5
Provision	40	(611)	(383)	961	1	96	104	64	(1,121)	(2,353)	1,806	5
Ending balance	$ 140	$ 3,539	$ 4,219	$ 8,678	$ 6	$ 96	$16,678	$ 164	$ 3,030	$ 2,255	$ 9,523	$ 10

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

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

Impaired Loans

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

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

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

Collateral-Dependent Loans

Collateral-dependent loans are loans for which foreclosure is probable or loans for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The estimated credit losses for these loans are based on the collateral's fair value less selling costs. In most cases, the Company records a partial charge-off to reduce the loan's carrying value to the collateral's fair value less selling costs at the time of foreclosure. As of June 30, 2023 September 30, 2023, there were $10.3 11.6 million, $3.2 million and $3.5 million $95,000 of collateral-dependent loans which which were secured by residential and real estate, commercial real estate and equipment, respectively. The allowance for credit losses allocated to these loans as of June 30, 2023 September 30, 2023 was $460,000. $544,000.

Past Due and Nonaccrual Loans

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

The following summarizes the Company's past due and nonaccrual loans, by portfolio segment, as of June 30, 2023 September 30, 2023 and December 31, 2022:

(Dollars in thousands) **June 30, 2023**	**Current**	**30-59 Days**	**60-89 Days**	**Accruing Greater than 90 Days**	**Total Accruing Past Due**	**Nonaccrual**	**Total Financing Receivables**
Construction and development	$ 51,638	$ —	$ —	$ —	$ —	$ —	$ 51,638
Commercial real estate	621,266	—	349	—	349	1,079	622,694
Commercial and industrial	61,624	—	101	—	101	1,615	63,340
Residential real estate	2,267,079	—	5,518	—	5,518	10,343	2,282,940
Consumer and other	102	—	—	—	—	—	102
Total	$3,001,709	$ —	$ 5,968	$ —	$ 5,968	$ 13,037	$3,020,714

September 30, 2023	**Current**	**30-59 Days**	**60-89 Days**	**Accruing Greater than 90 Days**	**Total Accruing Past Due**	**N**
Construction and development	$ 41,091	$ —	$ 548	$ —	$ 548	$
Commercial real estate	619,582	—	346	—	346	
Commercial and industrial	59,420	—	—	—	—	
Residential real estate	2,289,601	3,992	—	—	3,992	
Consumer and other	240	—	—	—	—	
Total	$3,009,934	$ 3,992	$ 894	$ —	$ 4,886	$

(Dollars in thousands)	**Accruing Greater than**	**Total Accruing**	**Total Financing**

December 31, 2022	Current	30-59 Days	60-89 Days	90 Days	Past Due	Nonaccrual	Receivables
Construction and development	$ 47,567	$ —	$ —	$ —	$ —	$ —	$ 47,567
Commercial real estate	649,552	354	—	—	354	4,892	654,798
Commercial and industrial	52,485	—	310	180	490	136	53,111
Residential real estate	2,282,089	8,882	3,989	—	12,871	5,037	2,299,997
Consumer and other	216	—	—	—	—	—	216
Total	$ 3,031,909	$ 9,236	$ 4,299	$ 180	$ 13,715	$ 10,065	$ 3,055,689

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

(Dollars in thousands)	Nonaccrual Loans With a Related ACL	Nonaccrual Loans Without a Related ACL	Total Nonaccrual Loans	Nonaccrual Loans With a Related ACL	Nonaccrual Loans Without a Related ACL	Total Nonaccrual Loans
June 30, 2023						
September 30, 2023						
Commercial real estate	$ 233	$ 846	$ 1,079	$ 1,163	$ 781	$ 1,944
Commercial and industrial	93	1,522	1,615	90	1,522	1,612
Residential real estate	—	10,343	10,343	—	11,571	11,571
Total	$ 326	$ 12,711	$ 13,037	$ 1,253	$ 13,874	$ 15,127

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 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.

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The following table presents the loan portfolio's amortized cost by loan type, risk rating and year of origination as of June 30, 2023 September 30, 2023. There were no loans with a risk rating of Doubtful or Loss at June 30, 2023 September 30, 2023.

(Dollars in thousands)	Term Loan by Origination Year						Revolving		Term Loan by Origination Year						Revolvin
June 30, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Loans**	**Total Loans**							
September 30, 2023									**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Loans**
Construction and development															
Pass	$ 404	$ 10,727	$ 21,380	$ 1,202	$ 17,684	$ 241	$ —	$ 51,638	$ 4,674	$ 12,681	$ 22,035	$ 1,194	$ 267	$ 240	$ —
Special Mention	—	—	—	—	—	—	—	—	—	—	548	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total construction and development	$ 404	$ 10,727	$ 21,380	$ 1,202	$ 17,684	$ 241	$ —	$ 51,638	$ 4,674	$ 12,681	$ 22,583	$ 1,194	$ 267	$ 240	$ —
Commercial real estate															
Pass	$ 37,369	$204,009	$ 108,453	$ 85,529	$ 55,193	$112,852	$ 3,030	$ 606,435	$ 59,750	$197,514	$107,960	$ 81,012	$ 54,341	$104,130	$ 1,170
Special Mention	—	—	—	1,948	—	—	—	1,948	—	—	—	1,937	—	—	—
Substandard	—	600	—	1,163	10,808	1,740	—	14,311	—	595	—	1,163	10,636	1,664	—
Total commercial real estate	$ 37,369	$204,609	$ 108,453	$ 88,640	$ 66,001	$114,592	$ 3,030	$ 622,694	$ 59,750	$198,109	$107,960	$ 84,112	$ 64,977	$105,794	$ 1,170
Commercial real estate:															
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ 231	$ —	$ 231	$ —	$ —	$ —	$ —	$ —	$ 231	$ —
Commercial and industrial															
Pass	$ 7,715	$ 15,451	$ 5,221	$ 3,464	$ 2,984	$ 3,753	$ 21,002	$ 59,590	$ 11,082	$ 14,037	$ 5,019	$ 3,261	$ 2,870	$ 3,571	$ 17,530
Special Mention	—	—	—	369	231	1,297	—	1,897	—	—	—	359	222	1,240	—
Substandard	—	—	1,281	—	551	21	—	1,853	—	—	1,282	—	538	21	—
Total commercial and industrial	$ 7,715	$ 15,451	$ 6,502	$ 3,833	$ 3,766	$ 5,071	$ 21,002	$ 63,340	$ 11,082	$ 14,037	$ 6,301	$ 3,620	$ 3,630	$ 4,832	$ 17,530
Commercial and industrial:															
Current period gross write offs	$ —	$ —	$ 142	$ —	$ 79	$ —	$ —	$ 221	$ —	$ —	$ 142	$ —	$ 79	$ —	$ —

Residential real estate															
Pass	$106,981	$758,556	$ 877,670	$303,911	$ 65,583	$156,802	$ —	$ 2,269,503	$192,955	$741,169	$854,366	$295,145	$ 62,583	$145,687	$ —
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	1,957	2,110	1,656	7,714	—	13,437	—	118	1,863	2,173	1,386	7,719	—
Total residential real estate	$106,981	$758,556	$ 879,627	$306,021	$ 67,239	$164,516	$ —	$ 2,282,940	$192,955	$741,287	$856,229	$297,318	$ 63,969	$153,406	$ —
Consumer and other															
Pass	$ 102	$ —	$ —	$ —	$ —	$ —	$ —	$ 102	$ 240	$ —	$ —	$ —	$ —	$ —	$ —
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total consumer and other	$ 102	$ —	$ —	$ —	$ —	$ —	$ —	$ 102	$ 240	$ —	$ —	$ —	$ —	$ —	$ —
Total loans	$152,571	$989,343	$1,015,962	$399,696	$154,690	$284,420	$ 24,032	$ 3,020,714	$268,701	$966,114	$993,073	$386,244	$132,843	$264,272	$ 18,700

No During the three and nine months ended Setpember 30, 2023, one construction and development revolving loans were loan totaling $11.6 million was converted to a commercial real estate term loans during the six months ended June 30, 2023. loan.

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

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

Loan Modifications to Borrowers Experiencing Financial Difficulty.

In January 2023, the Company adopted ASU 2022-02, *"Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"*, which eliminated the accounting guidance for troubled debt restructurings

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(“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.

No The following table presents the amortized cost basis of loan modifications were made to borrowers experiencing financial difficulty during the three and six nine months ended June 30, 2023 September 30, 2023. None of the loan modifications below were past due or on nonaccrual status as of September 30, 2023.

(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	$ —	$ —	$ —	$ —	— %
Commercial real estate	—	—	12,400	12,400	1.99
Commercial and industrial	—	—	—	—	—
Residential real estate	—	—	—	—	—
Consumer and other	—	—	—	—	—
Total	$ —	$ —	$ 12,400	$ 12,400	0.41 %

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

(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 %

No loan modifications made to borrowers experiencing financial difficulty defaulted during the three and nine months ended September 30, 2023. No charge-offs of previously modified loans were recorded during the three and six nine months ended June 30, 2023 September 30, 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 June 30, 2023 September 30, 2023 and December 31, 2022, the unpaid principal balances of serviced loans totaled $493.6 million $487.8 million and $465.1 million, respectively.

Activity for SBA loan servicing rights are as follows:

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Beginning of period	$ 7,736	$ 10,395	$ 7,038	$ 10,091	$ 8,018	$ 8,062	$ 7,038	$ 10,091
Change in fair value	282	(2,333)	980	(2,029)	(911)	73	69	(1,956)
End of period, fair value	$ 8,018	$ 8,062	$ 8,018	$ 8,062	$ 7,107	$ 8,135	$ 7,107	$ 8,135

Fair value at June 30, 2023 September 30, 2023 and December 31, 2022 was determined using discount rates ranging from 5.96% 8.65% to 14.74% 17.65% and 8.21% to 19.30%, respectively, and prepayment speeds ranging from 12.74% 13.36% to 18.08% 19.29% and 13.12% to 17.60%, respectively, depending on the stratification of the specific right. Average default rates are based on the industry average for the applicable NAICS/SIC code.

The aggregate fair market value of the interest only strips included in SBA servicing assets was $0 and $47,000 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of fair value measurement, risk characteristics including product type and interest rate, were used to stratify the originated loan servicing rights.

NOTE 5 – RESIDENTIAL MORTGAGE LOAN SERVICING

Residential mortgage loans serviced for others are not reported as assets. The outstanding principal of these loans at June 30, 2023 and December 31, 2022 was $487.8 million and $526.7 million, respectively.

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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, 2023 and December 31, 2022 was $464.8 million and $526.7 million, respectively.

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

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Mortgage loan servicing rights:	2023	2022	2023	2022	2023	2022	2023	2022
Beginning of period	$ 3,205	$ 6,925	$ 3,973	$ 7,747	$ 2,514	$ 6,090	$ 3,973	$ 7,747
Additions	—	347	—	760	—	—	—	760

Amortization expense	(691)	(1,270)	(1,459)	(2,580)	(691)	(1,115)	(2,150)	(3,695)
Valuation allowance	—	88	—	163	—	—	—	163
End of period, carrying value	$ 2,514	$ 6,090	$ 2,514	$ 6,090	$ 1,823	$ 4,975	$ 1,823	$ 4,975

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Valuation allowance:	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Beginning balance	$ —	$ 88	$ —	$ 163	$ —	$ —	$ —	$ 163
Additions expensed	—	—	—	—	—	—	—	—
Reductions credited to operations	—	(88)	—	(163)	—	—	—	(163)
Direct write-downs	—	—	—	—	—	—	—	—
Ending balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

The fair value of servicing rights was $7.1 million $7.0 million and $7.2 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Fair value at June 30, 2023 September 30, 2023 was determined by using a discount rate of 12.55%, prepayment speeds of 16.99% 16.59%, and a weighted average default rate of 1.31%. Fair value at December 31, 2022 was determined by using a discount rate of 12.56%, prepayment speeds of 18.63%, and a weighted average default rate of 1.29%.

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NOTE 6 – FEDERAL HOME LOAN BANK ADVANCES & OTHER BORROWINGS

Advances from the Federal Home Loan Bank ("FHLB") at June 30, 2023 September 30, 2023 and December 31, 2022 are summarized as follows:

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Convertible advance maturing February 13, 2026; fixed rate of 4.184%	$ 50,000	$ —	$ 50,000	$ —
Convertible advance maturing May 7, 2027; fixed rate of 3.025%	50,000	—	50,000	—
Convertible advance maturing October 26, 2027; fixed rate of 3.530%	25,000	25,000	25,000	25,000
Convertible advance maturing January 25, 2028; fixed rate of 3.243%	50,000	—	50,000	—

Convertible advance maturing February 14, 2028; fixed rate of 3.625%	25,000	—	25,000	—
Convertible advance maturing May 8, 2028; fixed rate of 2.860%	50,000	—	50,000	—
Convertible advance maturing June 23, 2028; fixed rate of 3.655%	50,000	—	50,000	—
Convertible advance maturing June 16, 2032; fixed rate of 1.905%	—	50,000	—	50,000
Convertible advance maturing June 23, 2032; fixed rate of 1.950%	—	100,000	—	100,000
Convertible advance maturing August 6, 2032; fixed rate of 1.892%	—	100,000	—	100,000
Convertible advance maturing October 26, 2032; fixed rate of 3.025%	25,000	25,000	25,000	25,000
Convertible advance maturing May 12, 2037; fixed rate of 1.135%	—	75,000	—	75,000
Total FHLB advances	$ 325,000	$ 375,000	$ 325,000	$ 375,000

The FHLB advances outstanding at June 30, 2023 September 30, 2023 all have a conversion feature that allows the FHLB to call the advances after six months ($100.0 million) or one year ($225.0 million). At June 30, 2023 September 30, 2023 and December 31, 2022, the Company had a line of credit with the FHLB, set as a percentage of total assets, with maximum borrowing capacity of $1.03 billion $1.04 billion and $1.01 billion, respectively. The available borrowing amounts are collateralized by the Company's FHLB stock and pledged residential real estate loans, which totaled $2.27 billion $2.30 billion and $2.29 billion at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

At June 30, 2023 September 30, 2023, 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 June 30, 2023 September 30, 2023.

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At June 30, 2023 September 30, 2023, the Company had Federal Reserve Discount Window funds available of approximately $444.6 million $446.2 million. The funds are collateralized by a pool of construction and development, commercial real estate and commercial and industrial loans with carrying balances totaling $523.7 million $510.4 million as of June 30, 2023 September 30, 2023, as well as all of the Company's municipal and mortgage backed securities. There were no outstanding borrowings on this line as of June 30, 2023 September 30, 2023.

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

The sold portion of SBA loans that have an interest only strip are considered secured borrowings and are included in other borrowings. Secured borrowings at June 30, 2023 September 30, 2023 and December 31, 2022 were $387,000 $0 and $392,000, respectively.

NOTE 7 – OPERATING LEASES

The Company has entered into various operating leases for certain branch locations with terms extending through April 2033. Generally, these leases have initial lease terms of ten years or less. Many of the leases have one or more renewal options which typically are for five years at the then fair market rental rates. We assessed these renewal options using a threshold of reasonably certain. For leases where we were reasonably certain to renew, those option periods were included within the lease term, and therefore, the measurement of the right-of-use ("ROU") asset and lease liability. None of our leases included options to terminate the lease and none had initial terms of 12 months or less (i.e. short-term leases).

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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 six nine months ended June 30, 2023 September 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Operating lease cost	$ 368	$ 511	$ 909	$ 1,016	$ 532	$ 480	$ 1,441	$ 1,496
Variable lease cost	44	43	88	87	42	43	130	130
Short-term lease cost	—	—	—	—	—	—	—	—
Sublease income	—	—	—	—	—	—	—	—
Total net lease cost	$ 412	$ 554	$ 997	$ 1,103	$ 574	$ 523	$ 1,571	$ 1,626

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

(Dollars in thousands)		
Twelve Months Ended:	**Lease Liability**	**Lease Liability**
June 30, 2024	$ 1,957	
June 30, 2025	1,799	
June 30, 2026	1,550	
June 30, 2027	1,277	
June 30, 2028	1,007	

After June 30, 2028	1,091	
September 30, 2024		$ 1,918
September 30, 2025		1,737
September 30, 2026		1,478
September 30, 2027		1,228
September 30, 2028		906
After September 30, 2028		905
Total lease payments	8,681	8,172
Less: interest discount	(696)	(635)
Present value of lease liabilities	$ 7,985	$ 7,537

Supplemental Lease Information	June September 30, 2023
Weighted-average remaining lease term (years)	5.6 5.4
Weighted-average discount rate	3.19 %

	Six Months Ended June 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases (cash payments)	$ 1,029	$ 920	$ 1,538	$ 1,420
Operating cash flows from operating leases (lease liability reduction)	$ 898	$ 790	$ 1,345	$ 1,219
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	$ —	$ —	$ —	$ 1,273

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 begin in October 2023, January 2024 or April 2024. Four of the interest rate swaps are two-year two-

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year forward two-year term swaps (four-year total term) where cash settlements begin in November 2023 or April 2024. Two of the interest rate swaps are a one-year forward two-year term swap (three-year total term) and a one-year forward three-year term swap (four-year term total) where cash settlements begin 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 $36.6 million $43.3 million and $26.7 million and an unrealized loss of $0 and $779,000 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. These unrealized gains and losses are recorded in Interest Rate Derivatives and Other Liabilities on the Consolidated Balance Sheets. The Company expects the hedges to remain highly effective during the remaining terms of the swaps.

During October 2021, the Company entered into an interest rate cap agreement with a notional amount of $50.0 million and a cap rate of 2.50%. This interest rate cap is a two-year forward three-year term (five-year total term) where cash settlements begin on 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 $2.7 million $3.2 million and $2.1 million at June 30, 2023 September 30, 2023 and December 31, 2022, 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

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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 June 30, 2023 September 30, 2023, there were no cash deposits pledged as collateral by the Company. At June 30, 2023 September 30, 2023, the Company had $29.1 million $40.0 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 Six Months Ended June 30, 2023	As of or for the Year Ended December 31, 2022	As of or for the Nine Months Ended September 30, 2023	As of or for the Year Ended December 31, 2022
Notional Amounts	$ 800,000	$ 800,000	$ 800,000	$ 800,000
Weighted-average pay rate	2.28%	2.28%	2.28%	2.28%
Weighted-average receive rate	4.76%	1.68%	4.93%	1.68%
Weighted-average maturity	4.2 years	4.2 years	4.2 years	4.2 years
Weighted-average remaining maturity	2.9 years	3.4 years	2.6 years	3.4 years
Net interest income (expense)	$ 1,084	$ (163)	$ 2,384	$ (163)

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

(Dollars in thousands)	As of or for the Six Months Ended June 30, 2023	As of or for the Year Ended December 31, 2022	As of or for the Nine Months Ended September 30, 2023	As of or for the Year Ended December 31, 2022
Notional Amounts	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Rate Cap Premiums	413	474	381	474
Cap Rate	2.50%	2.50%	2.50%	2.50%
Weighted-average maturity	5.0 years	5.0 years	5.0 years	5.0 years
Weighted-average remaining maturity	3.3 years	3.8 years	3.1 years	3.8 years
Net interest expense	$ (62)	$ (124)	$ (93)	$ (124)

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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 June 30, 2023 September 30, 2023 and December 31, 2022 include:

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Financial instruments whose contract amounts represent credit risk:				
Commitments to extend credit	$ 64,849	$ 62,334	$ 75,142	$ 62,334
Standby letters of credit	$ 6,228	$ 6,303	$ 7,028	$ 6,303

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit includes $64.8 million $75.1 million of unused lines of credit and $6.2 million $7.0 million for standby letters of credit as of June 30, 2023 September 30, 2023. Commitments generally have fixed expiration dates or other termination

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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

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

	September 30, 2023				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets					
Recurring fair value measurements:					
Securities available for sale:					
Obligations of U.S. Government entities and agencies	$ 4,678	$ —	$ —	$ 4,678	
States and political subdivisions	6,063	—	6,063	—	
Mortgage-backed GSE residential	6,923	—	6,923	—	
Total securities available for sale	17,664	—	12,986	4,678	
Equity securities	10,113	10,113	—	—	
SBA servicing asset	7,107	—	—	7,107	
Interest rate derivatives	46,502	—	46,502	—	
	$ 81,386	$ 10,113	$ 59,488	$ 11,785	
Nonrecurring fair value measurements:					
Collateral-dependent loans	$ 2,456	$ —	$ —	$ 2,456	$ (137)

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The following presents the assets and liabilities as of June 30, 2023 and December 31, 2022 which are measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, and the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded:

	June 30, 2023				
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total Gains (Losses)**
Assets					
Recurring fair value measurements:					
Securities available for sale:					
Obligations of U.S. Government entities and agencies	$ 4,790	$ —	$ —	$ 4,790	
States and political subdivisions	6,524	—	6,524	—	
Mortgage-backed GSE residential	7,382	—	7,382	—	
Total securities available for sale	18,696	—	13,906	4,790	
Equity securities	10,358	10,358	—	—	
SBA servicing asset	8,018	—	—	8,018	
Interest rate derivatives	39,284	—	39,284	—	
	$ 76,356	$ 10,358	$ 53,190	$ 12,808	
Nonrecurring fair value measurements:					
Collateral-dependent loans	$ 2,629	$ —	$ —	$ 2,629	$ (137)

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

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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

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

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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 six nine months ended June 30, 2023 September 30, 2023 and 2022:

(Dollars in thousands) **Three Months Ended:**	Obligations of U.S. Government Entities and Agencies	SBA Servicing Asset	Interest Only Strip	Liabilities	Obligations of U.S. Government Entities and Agencies	SBA Servicing Asset	Interest Only Strip	Liabilities
Fair value, April 1, 2023	$ 4,834	$ 7,736	$ 55	$ —				
Total gains/(losses) included in income	—	282	(55)	—				
Settlements	—	—	—	—				
Prepayments/paydowns	(44)	—	—	—				
Transfers in and/or out of level 3	—	—	—	—				
Fair value, June 30, 2023	$ 4,790	$ 8,018	$ —	$ —				
Fair value, April 1, 2022	$ 6,729	$ 10,395	$ 159	$ —				
Fair value, July 1, 2023					$ 4,790	$ 8,018	$ —	$ —
Total losses included in income	—	(2,333)	(5)	—	—	(911)	—	—
Settlements	—	—	—	—	—	—	—	—
Prepayments/paydowns	(829)	—	—	—	(112)	—	—	—
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
Fair value, June 30, 2022	$ 5,900	$ 8,062	$ 154	$ —				
Fair value, September 30, 2023					$ 4,678	$ 7,107	$ —	$ —
Six Months Ended:								
Fair value, July 1, 2022					$ 5,900	$ 8,062	$ 154	$ —
Total gains included in income					—	73	35	—
Settlements					—	—	—	—
Prepayments/paydowns					(215)	—	—	—
Transfers in and/or out of level 3					—	—	—	—

Fair value, September 30, 2022					$ 5,685	$ 8,135	$ 189	$ —
Nine Months Ended:								
Fair value, January 1, 2023	$ 5,059	$ 7,038	$ 47	$ —	$ 5,059	$ 7,038	$ 47	$ —
Total gains/(losses) included in income	—	980	(47)	—	—	69	(47)	—
Settlements	—	—	—	—	—	—	—	—
Prepayments/paydowns	(269)	—	—	—	(381)	—	—	—
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
Fair value, June 30, 2023	$ 4,790	$ 8,018	$ —	$ —				
Fair value, September 30, 2023					$ 4,678	$ 7,107	$ —	$ —
Fair value, January 1, 2022	$ 6,949	$ 10,091	$ 143	$ —	$ 6,949	$10,091	$ 143	$ —
Total (losses)/gains included in income	—	(2,029)	11	—	—	(1,956)	46	—
Settlements	—	—	—	—	—	—	—	—
Prepayments/paydowns	(1,049)	—	—	—	(1,264)	—	—	—
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
Fair value, June 30, 2022	$ 5,900	$ 8,062	$ 154	$ —				
Fair value, September 30, 2022					$ 5,685	$ 8,135	$ 189	$ —

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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 June 30, 2023 September 30, 2023 and December 31, 2022:

	Valuation Technique	Unobservable Input	General Range
June September 30, 2023:			
Recurring:			
Obligations of U.S. Government entities and agencies	Discounted cash flows	Discount rate	3%-5%
SBA servicing asset and interest only strip	Discounted cash flows	Prepayment speed	12.74%-18.08% 13.36%-19.29%
		Discount rate	5.96%-14.74% 8.65%-17.65%
Nonrecurring:			
Collateral-dependent loans	Appraised value less estimated selling costs	Estimated selling costs	6%
December 31, 2022:			
Recurring:			

Obligations of U.S. Government entities and agencies	Discounted cash flows	Discount rate	3%-5%
SBA servicing asset and interest only strip	Discounted cash flows	Prepayment speed	13.12%-17.60%
		Discount rate	8.21%-19.30%
<u>Nonrecurring:</u>			
Impaired Loans	Appraised value less estimated selling costs	Estimated selling costs	6%

The carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2023 September 30, 2023 and December 31, 2022 are as follows:

(Dollars in thousands)	Carrying Amount	Estimated Fair Value at June 30, 2023 Level 1	Level 2	Level 3	Total	Carrying Amount	Estimated Fair Value at Se Level 1	Level 2	Le
Financial Assets:									
Cash, due from banks, and federal funds sold	$ 262,727	$ —	$ 262,727	$ —	$ 262,727	$ 282,057	$ —	$ 282,057	$
Investment securities	29,054	10,358	13,906	4,790	29,054	27,777	10,113	12,986	
FHLB stock	15,534	—	—	—	N/A	17,846	—	—	
Loans, net	3,002,623	—	—	2,903,536	2,903,536	3,012,287	—	—	2,86
Accrued interest receivable	13,877	—		13,877	13,877	14,612	—	61	1
SBA servicing assets	8,018	—	—	8,018	8,018	7,107	—	—	
Mortgage servicing assets	2,514	—	—	7,104	7,104	1,823	—	—	
Interest rate derivatives	39,284	—	39,284	—	39,284	46,502	—	46,502	
Financial Liabilities:									
Deposits	2,698,482	—	2,691,466	—	2,691,466	2,718,588	—	2,713,695	
Federal Home Loan Bank advances	325,000	—	325,943	—	325,943	325,000	—	326,268	
Other borrowings	387	—	387	—	387				
Accrued interest payable	3,859	—	3,859	—	3,859	3,915	—	3,915	

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

Interest rate derivatives	779	—	779	—	779

NOTE 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 June 30, 2023 September 30, 2023 the Company and Bank meets 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 June 30, 2023 September 30, 2023 and December 31, 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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The Company's actual capital amounts (in thousands) and ratios are also presented in the following table:

	Actual		Minimum Capital Required - Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions:		Actual		Minimum Capital Required - Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
(Dollars in thousands)	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥
As of June 30, 2023:												
As of September 30, 2023:												
Total Capital (to Risk Weighted Assets)												
Consolidated	$357,834	17.59 %	213,589	10.5 %	N/A	N/A	$365,268	17.91 %	214,160	10.5 %	N/A	N/A
Bank	357,220	17.56 %	213,585	10.5	203,414	10.0 %	362,477	17.77 %	214,153	10.5	203,955	10.0 %
Tier I Capital (to Risk Weighted Assets)												
Consolidated	339,503	16.69 %	172,905	8.5 %	N/A	N/A	347,314	17.03 %	173,368	8.5 %	N/A	N/A
Bank	338,889	16.66 %	172,902	8.5	162,731	8.0 %	344,523	16.89 %	173,362	8.5	163,164	8.0 %
Common Tier 1 (CET1)												

Consolidated	339,503	16.69 %	142,393	7.0 %	N/A	N/A	347,314	17.03 %	142,773	7.0 %	N/A	N/A
Bank	338,889	16.66 %	142,390	7.0	132,219	6.5 %	344,523	16.89 %	142,769	7.0	132,571	6.5 %
Tier 1 Capital (to Average Assets)												
Consolidated	339,503	10.03 %	135,359	4.0 %	N/A	N/A	347,314	10.07 %	137,909	4.0 %	N/A	N/A
Bank	338,889	10.01 %	135,357	4.0	169,196	5.0 %	344,523	9.99 %	137,901	4.0	172,376	5.0 %
As of December 31, 2022:												
Total Capital (to Risk Weighted Assets)												
Consolidated	$338,185	16.68 %	212,932	10.5 %	N/A	N/A	$338,185	16.68 %	212,932	10.5 %	N/A	N/A
Bank	336,866	16.61 %	212,915	10.5	202,777	10.0 %	336,866	16.61 %	212,915	10.5	202,777	10.0 %
Tier I Capital (to Risk Weighted Assets)												
Consolidated	324,297	15.99 %	172,374	8.5 %	N/A	N/A	324,297	15.99 %	172,374	8.5 %	N/A	N/A
Bank	322,978	15.93 %	172,360	8.5	162,221	8.0 %	322,978	15.93 %	172,360	8.5	162,221	8.0 %
Common Tier 1 (CET1)												
Consolidated	324,297	15.99 %	141,955	7.0 %	N/A	N/A	324,297	15.99 %	141,955	7.0 %	N/A	N/A
Bank	322,978	15.93 %	141,944	7.0	131,805	6.5 %	322,978	15.93 %	141,944	7.0	131,805	6.5 %
Tier 1 Capital (to Average Assets)												
Consolidated	324,297	9.57 %	135,485	4.0 %	N/A	N/A	324,297	9.57 %	135,485	4.0 %	N/A	N/A
Bank	322,978	9.54 %	135,446	4.0	169,307	5.0 %	322,978	9.54 %	135,446	4.0	169,307	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 June 30, 2023September 30, 2023, 240,000 stock options had been granted and 774,437 shares of restricted stock had been issued under the 2018 Incentive Plan.

Stock Options

A summary of stock option activity for the six nine months ended June 30, 2023 September 30, 2023 is presented below:

	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2023	240,000	$ 12.70	240,000	$ 12.70
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at June 30, 2023	240,000	$ 12.70		
Outstanding at September 30, 2023			240,000	$ 12.70

The Company recognized no compensation expense for stock options during the three and six nine months ended June 30, 2023 September 30, 2023 and 2022. As of both June 30, 2023 September 30, 2023 and December 31, 2022, there was $0 of total unrecognized compensation cost related to options granted under the 2018 Incentive Plan. As of June 30, 2023 September 30, 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 six nine months ended June 30, 2023 September 30, 2023 is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	177,399	$ 17.95	177,399	$ 17.95
Granted	188,993	16.43	188,993	16.43
Vested	(136,171)	16.25	(136,171)	16.25
Forfeited	—	—	—	—
Nonvested at June 30, 2023	230,221	$ 17.71		
Nonvested at September 30, 2023			230,221	$ 17.71

During the three months ended June 30, 2023 September 30, 2023 and 2022, the Company recognized compensation expense for restricted stock of $473,000 $825,000 and $359,000, $689,000, respectively. During the six nine months ended June 30, 2023 September 30, 2023 and 2022, the Company recognized compensation expense for restricted stock of $772,000 $1.6 million and $553,000, $1.2 million, respectively. As of June 30, 2023 September 30, 2023 and December 31, 2022, there was $4.6 million $3.8 million and $2.3 million, respectively, of total unrecognized compensation cost related to nonvested shares granted under the 2018 Incentive Plan. As of June 30, 2023 September 30, 2023, the cost is expected to be recognized over a weighted-average period of 2.6 2.3 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 June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Basic earnings per share								
Net Income	$ 13,108	$ 16,100	$ 28,838	$ 35,529	$ 11,428	$ 16,893	$ 40,266	$ 52,422
Weighted average common shares outstanding	25,188,567	25,459,003	25,166,746	25,462,102	25,274,665	25,433,307	25,203,114	25,452,398
Basic earnings per common share	$ 0.52	$ 0.63	$ 1.15	$ 1.40	$ 0.45	$ 0.66	$ 1.60	$ 2.06
Diluted earnings per share								
Net Income	$ 13,108	$ 16,100	$ 28,838	$ 35,529	$ 11,428	$ 16,893	$ 40,266	$ 52,422
Weighted average common shares outstanding for basic earnings per common share	25,188,567	25,459,003	25,166,746	25,462,102	25,274,665	25,433,307	25,203,114	25,452,398
Add: Dilutive effects of restricted stock and options	288,576	270,153	302,195	284,589	317,209	268,716	307,574	279,606
Average shares and dilutive potential common shares	25,477,143	25,729,156	25,468,941	25,746,691	25,591,874	25,702,023	25,510,688	25,732,004
Diluted earnings per common share	$ 0.51	$ 0.63	$ 1.13	$ 1.38	$ 0.45	$ 0.66	$ 1.58	$ 2.04

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 six nine months ended June 30, 2023 September 30, 2023 and 2022.

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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, 2022 through June 30, 2023 September 30, 2023 and on our results of operations for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2022 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:

- The impact of current and future economic and market conditions generally (including seasonality) and in the financial services industry, nationally and within our primary market areas, including the effects of inflationary pressures, changes in interest rates, slowdowns in economic growth, and the potential for high unemployment rates, as well as the financial stress on borrowers and changes to customer and client behavior (including the velocity of loan repayment) and credit risk as a result of the foregoing;

- 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;

- recent adverse developments in the banking industry highlighted by high-profile bank failures and the potential impact of such developments on customer confidence, liquidity and regulatory responses to these developments (including increases in the cost of our deposit insurance assessments), 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, including a recession, 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 rising interest rates supply chain challenges and inflation;

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- 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; 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 impact in our mortgage banking services, including declines in our mortgage originations or profitability due to rising interest rates and increased competition and regulation, the Bank’s or third party’s failure to satisfy mortgage servicing obligations, loan modifications, the effects of judicial or regulatory requirements or guidance, and the possibility of the Bank being required to repurchase mortgage loans or indemnify buyers;

- our ability to attract sufficient loans that meet prudent credit standards, including in our construction and development, commercial and industrial and owner-occupied commercial real estate loan categories;

- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;

- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses (“ACL”), including the implementation of the Current Expected Credit Losses (“CECL”) model;

- 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 to effectively mitigate credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk and reputational risk;

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- our ability to maintain expenses in line with current projections;

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- the makeup of our asset mix and investments;
- external economic, political and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- uncertainty related to the transition away from the London Inter-bank Offered Rate ("LIBOR");
- the institution and outcome of litigation and other legal proceeding against us or to which we may become subject to;
- the impact of recent and future legislative and regulatory changes;
- examinations by our regulatory authorities;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies (including fintech companies), many of which are subject to different regulations than we are;
- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- restraints on the ability of the Bank to pay dividends to us, which could limit our liquidity;
- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- a failure in the internal controls we have implemented to address the risks inherent to the business of banking;
- 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;

- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems; systems, and the cost of defending against them and any reputational or other financial risks following such a cybersecurity incident;

- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;

- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies;

- fraudulent and negligent acts by our clients, employees or vendors and our ability to identify and address such acts;

- risks related to potential acquisitions;

- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation;

- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage origination, sale and servicing operations;

- changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverage;

- changes in our accounting standards;

- changes in tariffs and trade barriers;

- changes in federal tax law or policy;

- the effects of war or other conflicts (including Russia's military action in Ukraine) Ukraine and the ongoing conflict in Israel and the surrounding region), acts of terrorism, acts of God, natural disasters, health emergencies, epidemics or pandemics, climate changes, or other catastrophic events that may affect general economic conditions;

- risks related to environmental, social and governance ("ESG") strategies and initiatives, the scope and pace of which could alter the Company's reputation and shareholder, associate, customer and third-party affiliations;

- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget; and

- other risks and factors identified in our Annual Report on Form 10-K for the year ended December 31, 2022, 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 June 30, 2023 September 30, 2023, included elsewhere in this Form 10-Q, for additional information on the 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, 2022 in the Company’s 2022 Form 10-K. Other than our methodology of estimating allowance for credit losses (discussed below), there have been no significant changes in the Company’s application of critical accounting policies since December 31, 2022.

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), local/regional economic trends and conditions,

changes in underwriting standards, changes in collateral values, experience and depth of lending staff, trends in delinquencies, and the volume and terms of loans.

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 June

30, 2023 September 30, 2023, we had total assets of $3.48 billion $3.51 billion, total loans of $3.02 billion $3.03 billion, total deposits of $2.70 billion $2.72 billion and total shareholders' equity of $373.2 million $384.7 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 six nine months ended June 30, 2023 September 30, 2023 and 2022. 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.

	As of or for the Three Months Ended					As of or for the Six Months Ended	
	June 30,	**March 31,**	**December 31,**	**September 30,**	**June 30,**	**June 30,**	**June 30,**
(Dollars in thousands, except per share data)	**2023**	**2023**	**2022**	**2022**	**2022**	**2023**	**2022**
Selected income statement data:							
Interest income	$ 47,482	$ 45,965	$ 43,945	$ 38,297	$ 33,025	$ 93,447	$ 64,978
Interest expense	22,512	19,732	14,995	8,509	2,805	42,244	4,105
Net interest income	24,970	26,233	28,950	29,788	30,220	51,203	60,873
Provision for credit losses	(416)	—	(1,168)	(1,703)	—	(416)	104
Noninterest income	4,761	6,016	1,794	5,101	4,653	10,777	12,309
Noninterest expense	11,534	10,679	12,379	12,688	13,119	22,213	25,298
Income tax expense	5,505	5,840	9,353	7,011	5,654	11,345	12,251
Net income	13,108	15,730	10,180	16,893	16,100	28,838	35,529
Per share data:							
Basic income per share	$ 0.52	$ 0.63	$ 0.40	$ 0.66	$ 0.63	$ 1.15	$ 1.40
Diluted income per share	$ 0.51	$ 0.62	$ 0.40	$ 0.66	$ 0.63	$ 1.13	$ 1.38
Dividends per share	$ 0.18	$ 0.18	$ 0.15	$ 0.15	$ 0.15	$ 0.36	$ 0.30

Book value per share (at period end)	$ 14.76	$ 14.04	$ 13.88	$ 13.76	$ 12.69	$ 14.76	$ 12.69
Shares of common stock outstanding	25,279,846	25,143,675	25,169,709	25,370,417	25,451,125	25,279,846	25,451,125
Weighted average diluted shares	25,477,143	25,405,855	25,560,138	25,702,023	25,729,156	25,468,941	25,746,691
Performance ratios:							
Return on average assets	1.55 %	1.87 %	1.19 %	2.07 %	2.16 %	1.71 %	2.34 %
Return on average equity(1)	14.87	18.09	11.57	20.56	20.65	16.47	23.67
Dividend payout ratio	34.77	28.98	37.55	22.75	23.85	31.61	21.62
Yield on total loans	5.95	5.85	5.50	5.11	4.95	5.90	4.98
Yield on average earning assets	5.90	5.77	5.43	4.94	4.65	5.84	4.49
Cost of average interest bearing liabilities	3.74	3.30	2.49	1.51	0.56	3.52	0.40
Cost of deposits	3.88	3.48	2.61	1.48	0.55	3.69	0.41
Net interest margin	3.10	3.30	3.58	3.84	4.26	3.20	4.21
Efficiency ratio(2)	38.79	33.11	40.26	36.37	37.62	35.84	34.57
Asset quality data (at period end):							
Net charge-offs/(recoveries) to average loans held for investment	0.06 %	(0.00)%	(0.01)%	(0.00)%	(0.00)%	0.03 %	0.03 %
Nonperforming assets to gross loans and OREO	0.78	0.64	0.80	1.09	1.22	0.78	1.22
ACL to nonperforming loans	79.88	101.22	68.88	53.25	54.79	79.88	54.79
ACL to loans held for investment	0.60	0.63	0.45	0.50	0.60	0.60	0.60

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Balance sheet and capital ratios:							
Gross loans held for investment to deposits	112.27 %	114.27 %	114.94 %	116.21 %	115.86 %	112.27 %	115.86 %
Noninterest bearing deposits to deposits	21.32	21.83	22.95	23.43	25.87	21.32	25.87
Investment securities to assets	0.84	0.87	0.86	0.91	1.02	0.84	1.02
Common equity to assets	10.74	10.32	10.20	10.42	10.20	10.74	10.20

Leverage ratio	10.03	9.72	9.57	9.90	10.31	10.03	10.31
Common equity tier 1 ratio	16.69	16.55	15.99	16.18	16.70	16.69	16.70
Tier 1 risk-based capital ratio	16.69	16.55	15.99	16.18	16.70	16.69	16.70
Total risk-based capital ratio	17.59	17.51	16.68	16.94	17.60	17.59	17.60
Mortgage and SBA loan data:							
Mortgage loans serviced for others	$ 487,787	$ 506,012	$ 526,719	$ 550,587	$ 589,500	$ 487,787	$ 589,500
Mortgage loan production	72,830	43,335	88,045	255,662	326,973	116,165	489,901
Mortgage loan sales	—	—	—	—	37,928	—	94,915
SBA loans serviced for others	493,579	485,663	465,120	489,120	504,894	493,579	504,894
SBA loan production	16,110	15,352	42,419	22,193	21,407	42,349	72,096
SBA loan sales	30,298	36,458	—	8,588	—	66,756	22,898

	As of or for the Three Months Ended					**As of or for the Nine Months Ended**	
	September 30,	**June 30,**	**March 31,**	**December 31,**	**September 30,**	**September 30,**	**September 30,**
(Dollars in thousands, except per share data)	**2023**	**2023**	**2023**	**2022**	**2022**	**2023**	**2022**
Selected income statement data:							
Interest income	$ 48,709	$ 47,482	$ 45,965	$ 43,945	$ 38,297	$ 142,156	$ 103,275
Interest expense	24,555	22,512	19,732	14,995	8,509	66,799	12,614
Net interest income	24,154	24,970	26,233	28,950	29,788	75,357	90,661
Provision for credit losses	(381)	(416)	—	(1,168)	(1,703)	(797)	(1,599)
Noninterest income	2,902	4,761	6,016	1,794	5,101	13,679	17,410
Noninterest expense	11,785	11,534	10,679	12,379	12,688	33,998	37,986
Income tax expense	4,224	5,505	5,840	9,353	7,011	15,569	19,262
Net income	11,428	13,108	15,730	10,180	16,893	40,266	52,422
Per share data:							
Basic income per share	$ 0.45	$ 0.52	$ 0.63	$ 0.40	$ 0.66	$ 1.60	$ 2.06
Diluted income per share	$ 0.45	$ 0.51	$ 0.62	$ 0.40	$ 0.66	$ 1.58	$ 2.04
Dividends per share	$ 0.18	$ 0.18	$ 0.18	$ 0.15	$ 0.15	$ 0.54	$ 0.45
Book value per share (at period end)	$ 15.24	$ 14.76	$ 14.04	$ 13.88	$ 13.76	$ 15.24	$ 13.76
Shares of common stock outstanding	25,241,157	25,279,846	25,143,675	25,169,709	25,370,417	25,241,157	25,370,417
Weighted average diluted shares	25,591,874	25,477,143	25,405,855	25,560,138	25,702,023	25,510,689	25,732,004
Performance ratios:							
Return on average assets	1.30 %	1.55 %	1.87 %	1.19 %	2.07 %	1.57 %	2.25 %
Return on average equity(1)	12.14	14.87	18.09	11.57	20.56	14.96	22.57

Dividend payout ratio	40.18	34.77	28.98	37.55	22.75	34.04	21.98
Yield on total loans	5.98	5.95	5.85	5.50	5.11	5.93	5.03
Yield on average earning assets	5.92	5.90	5.77	5.43	4.94	5.88	4.65
Cost of average interest bearing liabilities	3.97	3.74	3.30	2.49	1.51	3.67	0.79
Cost of deposits	4.05	3.88	3.48	2.61	1.48	3.81	0.79
Net interest margin	2.94	3.10	3.30	3.58	3.84	3.11	4.08
Efficiency ratio(2)	43.56	38.79	33.11	40.26	36.37	38.18	35.15
Asset quality data (at period end):							
Net charge-offs/(recoveries) to average loans held for investment	(0.00)%	0.06 %	(0.00)%	(0.01)%	(0.00)%	0.02 %	0.02 %

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Nonperforming assets to gross loans and OREO	1.25	0.78	0.64	0.80	1.09	1.25	1.09
ACL to nonperforming loans	47.61	79.88	101.22	68.88	53.25	47.61	53.25
ACL to loans held for investment	0.58	0.60	0.63	0.45	0.50	0.58	0.50
Balance sheet and capital ratios:							
Gross loans held for investment to deposits	111.77 %	112.27 %	114.27 %	114.94 %	116.21 %	111.77 %	116.21 %
Noninterest bearing deposits to deposits	20.58	21.32	21.83	22.95	23.43	20.58	23.43
Investment securities to assets	0.79	0.84	0.87	0.86	0.91	0.79	0.91
Common equity to assets	10.96	10.74	10.32	10.20	10.42	10.96	10.42
Leverage ratio	10.07	10.03	9.72	9.57	9.90	10.07	9.90
Common equity tier 1 ratio	17.03	16.69	16.55	15.99	16.18	17.03	16.18
Tier 1 risk-based capital ratio	17.03	16.69	16.55	15.99	16.18	17.03	16.18
Total risk-based capital ratio	17.91	17.59	17.51	16.68	16.94	17.91	16.94
Mortgage and SBA loan data:							

Mortgage loans serviced for others	$ 464,823	$ 487,787	$ 506,012	$ 526,719	$ 550,587	$ 464,823	$ 550,587
Mortgage loan production	91,891	72,830	43,335	88,045	255,662	208,056	745,568
Mortgage loan sales	—	—	—	—	—	—	94,915
SBA loans serviced for others	487,827	493,579	485,663	465,120	489,120	487,827	489,120
SBA loan production	13,212	16,110	15,352	42,419	22,193	55,561	94,289
SBA loan sales	5,169	30,298	36,458	—	8,588	71,925	31,486

(1) Excluding average accumulated other comprehensive income, our return on average equity for the three months ended June 30, 2023 September 30, 2023 and 2022 was 15.50% 13.04% and 20.90% 20.99%, respectively, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was 17.27% 15.81% and 23.81% 22.82%, respectively.

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

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Recent Industry Developments

During the first half of 2023, the banking industry experienced significant volatility with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, uninsured deposit concentrations, unrealized securities losses and eroding consumer confidence in the banking system. Despite these negative industry developments, the Company's liquidity position and balance sheet remains robust. The Company's total deposits increased by 1.2% 1.9% from December 31, 2022, to $2.70 billion $2.72 billion at June 30, 2023 September 30, 2023. The Company's uninsured deposits represented 30.7% 27.2% of total deposits at June 30, 2023 September 30, 2023 compared to 32.5% of total deposits at December 31, 2022. The Company also took a number of preemptive actions, which included proactive outreach to clients and actions to maximize its funding sources in response to these recent developments. Furthermore, the Company's capital remains strong with common equity Tier 1 and total capital ratios of 16.69% 17.03% and 17.59 17.91 %, respectively, as of June 30, 2023 September 30, 2023.

Results of Operations

We recorded net income of $13.1 million $11.4 million for the three months ended June 30, 2023 September 30, 2023 compared to $16.1 million $16.9 million for the same period in 2022, a decrease of $3.0 million $5.5 million, or 18.6% 32.4%. This decrease was due to a decrease in net interest income of $5.3 million $5.6 million, offset by an increase a decrease in noninterest income of $108,000, $2.2 million and a decrease to the credit provision for credit losses of $1.3 million, offset by a decrease in noninterest expense of $1.6 million, $903,000 and a decrease in income tax expense of $149,000 and a decrease in provision for credit losses of $416,000. $2.8 million.

For the six nine months ended June 30, 2023 September 30, 2023, we recorded net income of $28.8 million $40.3 million compared to $35.5 million $52.4 million for the six nine months ended June 30, 2022 September 30, 2022, a decrease of $6.7 million $12.1 million, or 18.8% 23.2%. This decrease was due to a decrease in net interest income of $9.7 million and $15.3 million, a decrease in noninterest income of $1.5 million, $3.7 million and a decrease to the credit provision for credit losses of $802,000, offset by a decrease in noninterest expense of $3.1 million, $4.0 million and a decrease in income tax expense of $906,000 and a decrease in provision for credit losses of $520,000. $3.7 million.

Basic and diluted earnings per common share for the three months ended June 30, 2023 September 30, 2023 was $0.52 and $0.51 $0.45 compared to $0.63 $0.66 for both the basic and diluted earnings per common share for the same period in 2022. For the six nine months ended June 30, 2023 September 30, 2023, basic and diluted earnings per common share was $1.15 $1.60 and $1.13, $1.58, respectively, compared to $1.40 $2.06 and $1.38 $2.04 for the same period a year ago, respectively.

Interest Income

Interest income totaled $47.5 million $48.7 million for the three months ended June 30, 2023 September 30, 2023, an increase of $14.5 million $10.4 million, or 43.8% 27.2%, from the three months ended June 30, 2022 September 30, 2022, primarily due to an increase in average loan balances of $408.7 million $137.3 million coupled with a 100 87 basis points increase in the loan yield. The increase in average loans is due to an increase of $7.7 million $11.2 million in average construction commercial and development industrial loans, an increase of $78.1 million $45.9 million in average commercial real estate loans and an increase of $329.5 million $88.2 million in average residential mortgage loans, offset by a decrease of $6.6 million $8.0 million in commercial construction and industrial development loans. As compared to the three months ended June 30, 2022 September 30, 2022, the yield on average interest-earning assets increased by 125 98 basis points to 5.90% 5.92% from 4.65% 4.94% with the yield on average loans increasing by 100 87 basis points and the yield on average total investments increasing by 399 293 basis points.

Interest income was $93.4 million $142.2 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $65.0 million $103.3 million for the same period in 2022, an increase of $28.4 million $38.9 million, or 43.8% 37.6%, primarily due to the increase in average loan balances of $453.1 million. $346.7 million coupled with a 90 basis points increase in the loan yield. The increase in average loans is due to an increase of $8.1 million $2.7 million in average construction and development loans, an increase of $100.4 million $82.0 million in average commercial real estate loans and an increase of $357.0 million $266.5 million in average residential mortgage loans, offset by a decrease of $12.4 million $4.5 million in average commercial and industrial loans. As compared to the six nine months ended June 30, 2022 September 30, 2022, the yield on average interest-earning assets increased by 135 123 basis points to 5.84% 5.88% from 4.49% 4.65% with the yield on average loans increasing by 92 90 basis points and the yield on average total investments increasing by 417 405 basis points.

Interest Expense

Interest expense for the three months ended June 30, 2023 increased $19.7 million, or 702.6%, to $22.5 million compared to interest expense of $2.8 million for the three months ended June 30, 2022, primarily due to a 333 basis points increase in deposit costs and a 225 basis points increase in borrowing costs coupled with a $291.9 million increase in

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average interest-bearing deposits Interest Expense

Interest expense for the three months ended September 30, 2023 increased $16.1 million, or 188.6%, to $24.6 million compared to interest expense of $8.5 million for the three months ended September 30, 2022, primarily due to a 257 basis points increase in deposit costs and a $124.2 million 181 basis points increase in borrowing costs coupled with a $262.5 million increase in average borrowings. interest-bearing deposits. The 333 257 basis points increase in deposit costs included a 371 274 basis point increase in the yield on average money market deposits and a 329 282 basis points increase in the yield on average time deposits. Average time deposits increased by $538.0 million $466.8 million while average money market deposits decreased by $209.7 million $143.0 million. Interest expense totaled $42.2 million $66.8 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $38.1 million $54.2 million, or 929.1% 429.6%, compared to the same period in 2022, primarily due to a 328 302 basis points increase in deposit costs and a 231 210 basis points increase in borrowing costs coupled with a $300.1 million $287.4 million increase in average interest-bearing deposits.

Average borrowings outstanding for the three months ended June 30, 2023 increased September 30, 2023 decreased by $124.2 million with $50.4 million but had an increase in rate of 225 181 basis points compared to the three months ended June 30, 2022 September 30, 2022. Average borrowings outstanding for the six nine months ended June 30, 2023 September 30, 2023 increased by $30.0 million $3.0 million with an increase in rate of 231 210 basis points compared to the same period in 2022.

Net Interest Margin

The net interest margin for the three months ended June 30, 2023 September 30, 2023 decreased by116 by 90 basis points to 3.10% 2.94% from 4.26% 3.84% for the three months ended June 30, 2022 September 30, 2022, primarily due to a 318 246 basis point increase in the cost of average interest-bearing liabilities of $2.42 billion $2.45 billion, offset by a 125 98 basis point increase in the yield on average interest-earning assets of $3.23 billion $3.26 billion. Average earning assets for the three months ended June 30, 2023 September 30, 2023 increased by $381.5 million $183.7 million from the same period in 2022, primarily due to a $408.7 million $137.3 million increase in average loans offset by and a $24.0 million decrease $49.1 million increase in average interest-earning cash accounts. Average interest-bearing liabilities for the three months ended June 30, 2023 September 30, 2023 increased by $416.1 million $212.1 million from the same period in 2022, driven by an increase in average interest-bearing deposits of $291.9 million and an increase $262.5 million, offset by a decrease in average borrowings of $124.2 million $50.4 million.

The net interest margin for the six nine months ended June 30, 2023 September 30, 2023 decreased by 101 97 basis points to 3.20% 3.11% from 4.21% 4.08% for the six nine months ended June 30, 2022 September 30, 2022, primarily due to a 312 288 basis point increase in the cost of average interest-bearing liabilities of $2.03 billion $2.43 billion, offset by a 135 123 basis point increase in the yield on average interest-earning assets of $3.23 billion. Average earning assets increased by $311.0 million $263.5 million, primarily due to a $453.1 million $346.7 million increase in average loans, offset by a $138.5 million $79.9 million decrease in average interest-earning cash accounts. Average interest-bearing liabilities increased by $330.2 million $290.4 million, primarily driven by an increase in average interest-bearing deposits of $300.1 million $287.4 million, as well as an increase in average borrowings of $30.0 million $3.0 million.

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 decline in our net interest margin is primarily the result of our increasing deposit costs.

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Average Balances, Interest and Yields

The following tables present, for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, 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 June 30,						Three Months Ended September 30,					
	2023			2022			2023			2022		
(Dollars in thousands)	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate
Earning Assets:												
Federal funds sold and other investments[1]	$ 169,976	$ 2,445	5.77 %	$ 193,955	$ 560	1.16 %	$ 200,245	$ 2,807	5.56 %	$ 151,177	$ 864	2.27
Investment securities	32,525	198	2.44	35,754	155	1.74	32,172	207	2.55	34,792	170	1.94
Total investments	202,501	2,643	5.24	229,709	715	1.25	232,417	3,014	5.14	185,969	1,034	2.21
Construction and development	40,386	555	5.51	32,647	414	5.09	30,584	442	5.73	38,636	530	5.44
Commercial real estate	654,021	14,362	8.81	575,917	8,403	5.85	647,244	14,435	8.85	601,370	9,905	6.53
Commercial and industrial	47,836	1,119	9.38	54,423	915	6.74	61,774	1,488	9.56	50,605	909	7.13
Residential real estate	2,282,264	28,777	5.06	1,952,730	22,545	4.63	2,289,428	29,296	5.08	2,201,186	25,885	4.67
Consumer and other	153	26	68.16	266	33	49.76	201	34	67.11	137	34	98.46

Gross loans[2]	3,024,660	44,839	5.95	2,615,983	32,310	4.95	3,029,231	45,695	5.98	2,891,934	37,263	5.11
Total earning assets	3,227,161	47,482	5.90	2,845,692	33,025	4.65	3,261,648	48,709	5.92	3,077,903	38,297	4.94
Noninterest-earning assets	167,506			146,669			214,834			158,579		
Total assets	3,394,667			2,992,361			3,476,482			3,236,482		
Interest-bearing liabilities:												
NOW and savings deposits	160,967	839	2.09	197,460	102	0.21	125,078	381	1.21	186,459	338	0.72
Money market deposits	956,598	10,370	4.35	1,166,272	1,860	0.64	1,036,955	11,709	4.48	1,179,954	5,189	1.74
Time deposits	927,478	8,595	3.72	389,449	422	0.43	966,408	9,646	3.96	499,577	1,437	1.14
Total interest-bearing deposits	2,045,043	19,804	3.88	1,753,181	2,384	0.55	2,128,441	21,736	4.05	1,865,990	6,964	1.48
Borrowings	371,000	2,708	2.93	246,779	421	0.68	325,025	2,819	3.44	375,405	1,545	1.63
Total interest-bearing liabilities	2,416,043	22,512	3.74	1,999,960	2,805	0.56	2,453,466	24,555	3.97	2,241,395	8,509	1.51
Noninterest-bearing liabilities:												
Noninterest-bearing deposits	558,907			611,763			555,074			599,902		
Other noninterest-bearing liabilities	66,037			67,979			94,528			69,131		
Total noninterest-bearing liabilities	624,944			679,742			649,602			669,033		
Shareholders' equity	353,680			312,659			373,414			326,054		
Total liabilities and shareholders' equity	$3,394,667			$2,992,361			$3,476,482			$3,236,482		
Net interest income		$ 24,970			$ 30,220			$ 24,154			$ 29,788	
Net interest spread			2.16			4.09			1.95			3.43
Net interest margin			3.10			4.26			2.94			3.84

(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.

	Six Months Ended June 30,						Nine Months Ended September 30,					
	2023			2022			2023			2022		
(Dollars in thousands)	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate
Earning Assets:												
Federal funds sold and other investments[(1)]	$ 157,733	$ 4,250	5.43 %	$ 296,230	$ 956	0.65 %	$ 167,411	$ 7,057	5.64 %	$ 247,348	$ 1,747	0.94
Investment securities	32,737	376	2.32	36,295	253	1.41	32,547	583	2.39	35,789	496	1.85
Total investments	190,470	4,626	4.90	332,525	1,209	0.73	199,958	7,640	5.11	283,137	2,243	1.06
Construction and development	39,745	1,078	5.47	31,621	792	5.05	36,658	1,520	5.54	33,985	1,322	5.20
Commercial real estate	663,015	28,341	8.62	562,598	16,290	5.84	657,700	42,776	8.70	575,664	26,195	6.08
Commercial and industrial	47,473	2,149	9.13	59,906	1,991	6.70	52,292	3,637	9.30	56,772	2,900	6.83
Residential real estate	2,286,955	57,199	5.04	1,929,915	44,619	4.66	2,287,788	86,495	5.05	2,021,332	70,504	4.66
Consumer and other	160	54	68.06	236	77	65.80	174	88	67.62	203	111	73.11
Gross loans[(2)]	3,037,348	88,821	5.90	2,584,276	63,769	4.98	3,034,612	134,516	5.93	2,687,956	101,032	5.03
Total earning assets	3,227,818	93,447	5.84	2,916,801	64,978	4.49	3,234,570	142,156	5.88	2,971,093	103,275	4.65
Noninterest-earning assets	171,295			144,368			190,616			149,157		
Total assets	3,399,113			3,061,169			3,425,186			3,120,250		
Interest-bearing liabilities:												
NOW and savings deposits	163,948	1,487	1.83	192,388	178	0.19	150,849	1,869	1.66	190,390	515	0.36
Money market deposits	967,714	20,029	4.17	1,126,233	2,517	0.45	991,048	31,738	4.28	1,144,337	7,706	0.90
Time deposits	902,280	15,664	3.50	415,196	828	0.40	923,891	25,309	3.66	443,632	2,266	0.68
Total interest-bearing deposits	2,033,942	37,180	3.69	1,733,817	3,523	0.41	2,065,788	58,916	3.81	1,778,359	10,487	0.79
Borrowings	386,996	5,064	2.64	356,951	582	0.33	366,112	7,883	2.88	363,170	2,127	0.78
Total interest-bearing liabilities	2,420,938	42,244	3.52	2,090,768	4,105	0.40	2,431,900	66,799	3.67	2,141,529	12,614	0.79
Noninterest-bearing liabilities:												
Noninterest-bearing deposits	568,888			600,117			564,233			600,045		

Other noninterest-bearing liabilities	56,142			67,642			69,078			68,144		
Total noninterest-bearing liabilities	625,030			667,759			633,311			668,189		
Shareholders' equity	353,145			302,642			359,975			310,532		
Total liabilities and shareholders' equity	$3,399,113			$3,061,169			$3,425,186			$3,120,250		
Net interest income		$ 51,203			$ 60,873			$ 75,357			$ 90,661	
Net interest spread			2.32			4.09			2.21			3.86
Net interest margin			3.20			4.21			3.11			4.08

(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.

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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 June 30, 2023 Compared to Three Months Ended June 30, 2022			Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022		
	Increase (Decrease) Due to Change in:			Increase (Decrease) Due to Change in:		
(Dollars in thousands)	Volume	Yield/Rate	Total Change	Volume	Yield/Rate	Total Change
Earning assets:						
Federal funds sold and other investments(1)	$ 74	$ 1,811	$ 1,885	$ 529	$ 1,414	$ 1,943
Investment securities	(123)	166	43	(186)	223	37
Total investments	(49)	1,977	1,928	343	1,637	1,980
Construction and development	105	36	141	(114)	26	(88)
Commercial real estate	1,170	4,789	5,959	911	3,619	4,530
Commercial and industrial	(127)	331	204	229	350	579
Residential real estate	4,231	2,001	6,232	971	2,440	3,411
Consumer and Other	(7)	—	(7)	—	—	—
Gross loans(2)	5,372	7,157	12,529	1,997	6,435	8,432
Total earning assets	5,323	9,134	14,457	2,340	8,072	10,412

Interest-bearing liabilities:						
NOW and savings deposits	(18)	755	737	(157)	200	43
Money market deposits	(418)	8,928	8,510	(705)	7,225	6,520
Time deposits	1,659	6,514	8,173	2,532	5,677	8,209
Total interest-bearing deposits	1,223	16,197	17,420	1,670	13,102	14,772
Borrowings	844	1,443	2,287	(821)	2,095	1,274
Total interest-bearing liabilities	2,067	17,640	19,707	849	15,197	16,046
Net interest income	$ 3,256	$ (8,506)	$ (5,250)	$ 1,491	$ (7,125)	$ (5,634)

(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.

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	Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022 Increase (Decrease) Due to Change in:			Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022 Increase (Decrease) Due to Change in:		
(Dollars in thousands)	Volume	Yield/Rate	Total Change	Volume	Yield/Rate	Total Change
Earning assets:						
Federal funds sold and other investments[1]	$ 3,273	$ 94	$ 3,367	$ (110)	$ 5,420	$ 5,310
Investment securities	(3,357)	3,407	50	(448)	535	87
Total investments	(84)	3,501	3,417	(558)	5,955	5,397
Construction and development	180	106	286	76	122	198
Commercial real estate	3,012	9,039	12,051	3,986	12,595	16,581
Commercial and industrial	(486)	644	158	(261)	998	737
Residential real estate	8,774	3,806	12,580	9,798	6,193	15,991
Consumer and Other	(20)	(3)	(23)	(20)	(3)	(23)
Gross loans[2]	11,460	13,592	25,052	13,579	19,905	33,484
Total earning assets	11,376	17,093	28,469	13,021	25,860	38,881
Interest-bearing liabilities:						
NOW and savings deposits	(27)	1,336	1,309	(135)	1,489	1,354
Money market deposits	(475)	17,987	17,512	(1,228)	25,260	24,032
Time deposits	2,757	12,079	14,836	6,093	16,950	23,043
Total interest-bearing deposits	2,255	31,402	33,657	4,730	43,699	48,429
Borrowings	99	4,383	4,482	23	5,733	5,756
Total interest-bearing liabilities	2,354	35,785	38,139	4,753	49,432	54,185
Net interest income	$ 9,022	$ (18,692)	$ (9,670)	$ 8,268	$(23,572)	$ (15,304)

(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 qualititative factors that are considered in determining the amount of the allowance for credit losses are concentrations of credit risk (geographic, large borrower, and industry), local/regional economic trends and conditions, 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 credit provision of $416,000 $381,000 and $797,000 during the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to $0 a credit provision of $1.7 million and $104,000 provision expense $1.6 million during the same periods in 2022. The credit provision recorded during the first half nine months of 2023 was due to the decrease in reserves allocated to individually analyzed loans, as well as a decrease in the general reserves allocated to our residential mortgage loan portfolio as the outlook for the national housing price index improved during the second and third quarter 2023. Our ACL as a percentage of gross loans for the periods ended June 30, 2023 September 30, 2023 and 2022 was 0.60% for both periods. 0.58% and 0.50%, 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.

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Noninterest Income

Noninterest income for the three months ended June 30, 2023 September 30, 2023 was $4.8 million $2.9 million, an increase a decrease of $108,000, $2.2 million, or 2.3% 43.1%, compared to $4.7 million $5.1 million for the three months ended June 30, 2022 September 30, 2022. Noninterest income for the six nine months ended June 30, 2023 September 30, 2023 was $10.8 million $13.7 million, a decrease of $1.5 million $3.7 million, or 12.4% 21.4%, compared to $12.3 million $17.4 million for the six nine months ended June 30, 2022 September 30, 2022.

The following table sets forth the major components of our noninterest income for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

	Three Months Ended June 30,				Six Months Ended June 30,				Three Months Ended September 30,				Nine Montl	
(Dollars in thousands)	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2023	20
Noninterest income:														
Service charges on deposit accounts	$ 464	$ 518	$ (54)	(10.4)%	$ 913	$ 999	$ (86)	(8.6)%	$ 490	$ 509	$ (19)	(3.7)%	$ 1,403	$ 1
Other service charges, commissions and fees	1,266	3,647	(2,381)	(65.3)	2,140	5,806	(3,666)	(63.1)	1,478	2,676	(1,198)	(44.8)	3,618	8
Gain on sale of residential mortgage loans	—	806	(806)	(100.0)	—	2,017	(2,017)	(100.0)	—	—	—	(100.0)	—	2

Mortgage servicing income, net	(51)	(5)	(46)	920.0	(147)	96	(243)	(253.1)	(85)	(358)	273	76.3	(232)	(
Gain on sale of SBA loans	1,054	—	1,054	100.0	3,023	1,568	1,455	92.8	244	500	(256)	100.0	3,267	2
SBA servicing income, net	1,388	(1,077)	2,465	(228.9)	3,202	567	2,635	464.7	270	1,330	(1,060)	(79.7)	3,472	1
Other income	640	764	(124)	(16.2)	1,646	1,256	390	31.1	505	444	61	13.7	2,151	1
Total noninterest income	$4,761	$ 4,653	$ 108	2.3 %	$10,777	$12,309	$(1,532)	(12.4)%	$2,902	$5,101	$(2,199)	(43.1)%	$13,679	$17

Service charges on deposit accounts decreased $54,000, $19,000, or 10.4% 3.7%, to $464,000 $490,000 for the three months ended June 30, 2023 September 30, 2023 compared to $518,000 $509,000 for the same three months during 2022. Service charges on deposit accounts were $913,000 $1.4 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $999,000 $1.5 million for the same period in 2022, a decrease of $86,000, $105,000, or 8.6% 7.0%. These decreases were primarily attributable to lower analysis charges, overdraft fees and wire transfer fees.

Other service charges, commissions and fees decreased $2.4 million $1.2 million, or 65.3% 44.8%, to $1.3 million $1.5 million for the three months ended June 30, 2023 September 30, 2023 compared to $3.6 million $2.7 million for the three months ended June 30, 2022 September 30, 2022. Other service charges, commissions and fees decreased $3.7 million $4.9 million, or 63.1% 57.3%, to $2.1 million $3.6 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $5.8 million $8.5 million for the six nine months ended June 30, 2022 September 30, 2022. These decreases were mainly attributable to lower application, processing, underwriting and origination fees earned from our origination of residential mortgage loans as mortgage volume declined during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods in 2022. Mortgage loan originations totaled $72.8 million $91.9 million and $116.2 million $208.1 million during the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to $327.0 million $255.7 million and $489.9 million $745.6 million during the same periods in 2022.

Total gain on sale of loans was $1.1 million for the three months ended June 30, 2023 compared to $806,000 for the same period of 2022, an increase of $248,000 or 30.8%. Total gain on sale of loans was $3.0 million for the six months ended June 30, 2023 compared to $3.6 million for the same period of 2022, a decrease of $562,000, or 15.7%.

We recorded no gain on sale of residential mortgage loans during the three and six nine months ended June 30, 2023 September 30, 2023, as well as the three months eneded September 30, 2022, as no residential mortgage loans were sold during these periods. Gain on sale of residential mortgage loans totaled $806,000 for the three months ended June 30, 2022 as we sold $37.9 million in residential mortgage loans during the period with an average premium of 2.13%. Gain on sale of residential mortgage loans totaled $2.0 million for the six nine months ended June 30, 2022 September 30, 2022 as we sold $94.9 million in residential mortgage loans during the period with an average premium of 2.13%.

Gain on sale of SBA loans totaled $1.1 million $244,000 and $3.3 million for the three and nine months ended June 30, 2023 as we September 30, 2023 compared to $500,000 and $2.1 million for the same periods in 2022. We sold $30.3 million $5.2 million and $71.9 million in SBA loans during the quarter three and nine months ended September 30, 2023 with an average premium premiums of 5.24%. 6.00% and 6.09%, respectively. We recorded no gain on sale of sold $8.6 million and $31.5 million in SBA loans during the three and nine months ended June 30, 2022 as no SBA loans were sold September 30, 2022 with average premiums of 6.96% and 8.45%, respectively.

Mortgage loan servicing income, net of amortization, increased by $273,000, or 76.3%, to an expense balance of $85,000 during the period. Gain on sale of SBA loans totaled $3.0 million for the six three months ended June 30, 2023 September 30, 2023 compared to $1.6 million an expense balance of $358,000 for the same period in 2022. We sold $66.8

million during the six months ended June 30, 2023 with average premiums of 6.10% compared to $22.9 million sold during the same period in 2022 with average premiums of 9.00%.

Mortgage loan servicing income, net of amortization, decreased by $46,000 to an expense balance of $51,000 during the three months ended June 30, 2023 compared to an expense balance of $5,000 for the same period of 2022. Mortgage loan servicing income decreased increased by $243,000 $30,000, or 11.5%, to an expense balance of $147,000 $232,000 during the six nine months ended June 30, 2023 September 30, 2023 compared to income an expense balance balance of $96,000 $262,000 for the same period of 2022. The changes in mortgage loan servicing income were primarily due to decreases in mortgage servicing fees and capitalized mortgage servicing assets, offset by the decrease in mortgage servicing amortization. Included in mortgage loan servicing income for the three and six nine months ended June 30, 2023 September 30, 2023 were $640,000 $606,000 and $1.3 million $1.9 million, respectively, in mortgage servicing fees compared to $830,000 $758,000 and $1.8 million $2.5 million for the same periods in 2022, respectively, and capitalized mortgage servicing assets of $0 for the three and six nine months ended June 30, 2023 September 30, 2023 compared to $347,000 $0 and $761,000 for the same periods in 2022. These amounts were offset by mortgage loan servicing asset amortization of $691,000 and $1.5 million $2.2 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to $1.3 million $1.1 million and $2.6 million $3.7 million during the same periods in 2022. During the three and six nine months ended June 30, 2023 September 30, 2023, as well as the three months ended September 30, 2022, we did not record a fair value impairment on our mortgage servicing assets compared to assets. During the nine months ended September 30, 2022, we recorded a fair value impairment recoveries recovery of $88,000 and $163,000 recorded during the three and six months ended June 30, 2022, respectively. $163,000. Our total residential mortgage loan servicing portfolio was $487.8 million $464.8 million at June 30, 2023 September 30, 2023 compared to $589.5 million $550.6 million at June 30, 2022 September 30, 2022.

SBA servicing income increased decreased by $2.5 million $1.1 million, or 228.9% 79.7%, to $1.4 million $270,000 for the three months ended June 30, 2023 September 30, 2023 compared to an expense balance of $1.1 million $1.3 million for the three months ended June 30, 2022 September 30, 2022. SBA servicing income was $3.2 million $3.5 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $567,000 $1.9 million for the same period in 2022, an increase of $2.6 million $1.6 million, or 464.7% 83.0%. Our total SBA loan servicing portfolio was $493.6 million $487.8 million as of June 30, 2023 September 30, 2023 compared to $504.9 million $489.1 million as of June 30, 2022 September 30, 2022. 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 June 30, 2023 September 30, 2023, we recorded a $282,000 $911,000 fair value increase charge to our SBA servicing rights compared to a $2.3 million $73,000 fair value charge increase to our SBA servicing rights during the three months ended June 30, 2022 September 30, 2022. During the six nine months ended June 30, 2023 September 30, 2023, we recorded a $980,000 $69,000 fair value increase to our SBA servicing rights compared to a $2.0 million fair value charge during the six nine months ended June 30, 2022 September 30, 2022.

Other noninterest income decreased increased by $124,000, $61,000, or 16.2% 13.7%, to $640,000 $505,000 for the three months ended June 30, 2023 September 30, 2023 compared to $764,000 $444,000 for the three months ended June 30, 2022 September 30, 2022. Other noninterest income was $1.6 million $2.2 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $1.3 million $1.7 million for the same period in 2022, an increase of $390,000, $451,000, or 31.1% 26.5%. The increase was mainly due to a gain on sale of foreclosed real estate of $547,000 recorded during the six nine months ended June 30, 2023 September 30, 2023 compared to a loss gain on sale of $15,000 $70,000 recorded during the same period in 2022. The largest component of other noninterest income is the income on bank owned life insurance which totaled $445,000 $452,000 and $426,000, $431,000, respectively, for the three months ended June 30, 2023 September 30, 2023 and 2022, and $880,000 and $830,000, respectively, $1.3 million for both the six nine months ended June 30, 2023 September 30, 2023 and 2022.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2023 September 30, 2023 was $11.5 million $11.8 million compared to $13.1 million $12.7 million for the three months ended June 30, 2022 September 30, 2022, a decrease of $1.6 million, $903,000, or 12.1% 7.1%. Noninterest expense for the six nine months ended

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June 30, 2023 ended September 30, 2023 was $22.2 million $34.0 million compared to $25.3 million $38.0 million for the six nine months ended June 30, 2022 September 30, 2022, a decrease of $3.1 million $4.0 million, or 12.2% 10.5%.

The following table sets forth the major components of our noninterest expense for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

	Three Months Ended June 30,				Six Months Ended June 30,				Three Months Ended September 30,				Nine Mo	
(Dollars in thousands)	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2023	
Noninterest Expense:														
Salaries and employee benefits	$ 7,103	$ 7,929	$ (826)	(10.4)%	$13,469	$15,025	$(1,556)	(10.4)%	$ 6,864	$ 7,756	$ (892)	(11.5)%	$20,333	$
Occupancy and equipment	1,039	1,200	(161)	(13.4)	2,253	2,427	(174)	(7.2)	1,272	1,167	105	9.0	3,525	
Data processing	353	261	92	35.2	628	538	90	16.7	300	270	30	11.1	928	
Advertising	165	126	39	31.0	311	276	35	12.7	143	158	(15)	(9.5)	454	
Other expenses	2,874	3,603	(729)	(20.2)	5,552	7,032	(1,480)	(21.0)	3,206	3,337	(131)	(3.9)	8,758	
Total noninterest expense	$11,534	$13,119	$(1,585)	(12.1)%	$22,213	$25,298	$(3,085)	(12.2)%	$11,785	$12,688	$ (903)	(7.1)%	$33,998	$

Salaries and employee benefits expense for the three months ended June 30, 2023 September 30, 2023 was $7.1 million $6.9 million compared to $7.9 million $7.8 million for the three months ended June 30, 2022 September 30, 2022, a decrease of $826,000, $892,000, or 10.4% 11.5%. Salaries and employee benefits expense for the six nine months ended June 30, 2023 September 30, 2023 was $13.5 million $20.3 million compared to $15.0 million $22.8 million for the six nine months ended June 30, 2022 September 30, 2022, a decrease of $1.6 million $2.5 million, or 10.4% 10.7%. These decreases were partially attributable to lower commissions paid to our loan officers as loan volume declined during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods in 2022.

Occupancy and equipment expense for the three months ended June 30, 2023 September 30, 2023 was $1.0 million $1.3 million compared to $1.2 million for the three months ended June 30, 2022 September 30, 2022, a decrease an increase of $161,000, $105,000, or 13.4% 9.0%. Occupancy and equipment expense for the six nine months ended June 30, 2023 September 30, 2023 was $2.3 million $3.5 million compared to $2.4 million $3.6 million for the six nine months ended June 30, 2022 September 30, 2022, a slight decrease of $174,000, $69,000, or 7.2% 1.9%. These decreases were The increase for the three months ended September 30, 2023 was primarily due to lower depreciation higher maintenance expense and rent expense.

Data processing expenses for the three and six nine months ended June 30, 2023 September 30, 2023 remained relatively flat compared to the same periods in 2022.

Advertising expenses for the three and six nine months ended June 30, 2023 September 30, 2023 remained relatively flat compared to the same periods in 2022.

Other expenses for the three months ended June 30, 2023 September 30, 2023 were $2.9 million $3.2 million compared to $3.6 million $3.3 million for the three months ended June 30, 2022 September 30, 2022, a decrease of $729,000, $131,000, or 20.2% 3.9%. Other operating expenses for the six nine months ended June 30, 2023 September 30, 2023 were $5.6 million $8.8 million compared to $7.0 million $10.4 million for the six nine months ended June 30, 2022 September 30, 2022, a decrease of $1.5 million $1.6 million, or 21.0% 15.5%. These decreases were primarily due to lower FDIC deposit insurance premiums, security expense, communications expense and loan and other real estate owned related expenses, as well as fair value gains on our equity securities, partially offset by higher FDIC deposit insurance premiums, professional fees. fees and other real estate owned related expenses. Included in other expenses for the six nine months ended June 30, 2023 September 30, 2023 and 2022 were directors' fees of approximately $287,000 $452,000 and $285,000, $426,000, respectively.

Income Tax Expense

Income tax expense for the three months ended June 30, 2023 September 30, 2023 and 2022 was $5.5 million $4.2 million and $5.7 million $7.0 million, respectively. The Company's effective tax rates were 29.6% 27.0% and 26.0% 29.3% for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Income tax expense for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was $11.3 million $15.6 million and $12.3 million $19.3 million, respectively. The Company's effective tax rates were 28.2% 27.9% and 25.6% 26.9% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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In August 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law, creating a 15% corporate alternative minimum tax on profits of corporations based on average annual adjusted financial statement income effective for tax years beginning January 1, 2023. We do not anticipate a material impact on our financial position or results of operations from the IRA.

Financial Condition

Total assets increased $47.8 million $83.8 million, or 1.4% 2.44%, to $3.48 billion $3.51 billion at June 30, 2023 September 30, 2023 as compared to $3.43 billion at December 31, 2022. The increase in total assets was primarily attributable to increases in cash and cash equivalents of $83.2 million $102.6 million, interest rate derivatives of $10.5 million $17.7 million and premises and equipment of $2.1 million $3.2 million, partially offset by decreases in loans of $35.0 million $25.7 million and other assets of $3.4 million $4.7 million, as well as an increase in the allowance for credit losses of $4.2 million $3.8 million.

Loans

Gross loans decreased $35.8 million $26.9 million, or 1.2% 0.9%, to $3.03 billion $3.04 billion as of June 30, 2023 September 30, 2023 as compared to $3.07 billion as of December 31, 2022. Our loan decline during the six nine months ended June 30, 2023 September 30, 2023 was comprised of an increase a decrease of $4.0 million $6.0 million, or 8.3% 12.5%, in construction and development loans, a decrease of $32.1 million $33.1 million, or 4.9% 5.0%, in commercial real estate loans, an increase of $10.3 million $8.2 million, or 19.4% 15.3%, in commercial and industrial loans, a decrease an increase of $17.9 million $4.1 million, or 0.8% 0.2%, in residential real estate loans and a decrease an increase of $114,000, $24,000, or 52.8% 11.1%, in consumer and other loans. There were no loans classified as held for sale as of June 30, 2023 September 30, 2023 or December 31, 2022.

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

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Construction and development	$ 51,759	1.7 %	$ 47,779	1.6 %	$ 41,783	1.4 %	$ 47,779	1.6 %
Commercial real estate	625,111	20.6 %	657,246	21.4 %	624,122	20.5 %	657,246	21.4 %
Commercial and industrial	63,502	2.1 %	53,173	1.7 %	61,332	2.0 %	53,173	1.7 %
Residential real estate	2,289,050	75.6 %	2,306,915	75.3 %	2,310,981	76.1 %	2,306,915	75.3 %
Consumer and other	102	— %	216	— %	240	— %	216	— %
Gross loans	$ 3,029,524	100.0 %	$ 3,065,329	100.0 %	$ 3,038,458	100.0 %	$ 3,065,329	100.0 %
Less unearned income	(8,810)		(9,640)		(8,511)		(9,640)	
Total loans held for investment	$ 3,020,714		$ 3,055,689		$ 3,029,947		$ 3,055,689	

SBA Loan Servicing

As of June 30, 2023 September 30, 2023 and December 31, 2022, we serviced $493.6 million $487.8 million and $465.1 million, respectively, in SBA loans for others. We carried a servicing asset of $8.0 million and $7.1 million at June 30, 2023 both September 30, 2023 and December 31, 2022, respectively. See Note 4 of our consolidated financial statements as of June 30, 2023 September 30, 2023, included elsewhere in this Form 10-Q, for additional information on the activity for SBA loan servicing rights for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

Residential Mortgage Loan Servicing

As of June 30, 2023 September 30, 2023, we serviced $487.8 million $464.8 million in residential mortgage loans for others compared to $526.7 million as of December 31, 2022. We carried a servicing asset, net of amortization, of $2.5 million $1.8 million and $4.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Amortization relating to the mortgage loan servicing asset was $691,000 and $1.5 million $2.2 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to $1.3 million $1.1 million and $2.6 million $3.7 million for the same periods in 2022. During the three and six nine months ended June 30, 2023 September 30, 2023, we did not record a fair value impairment on our mortgage servicing asset compared to fair value impairment recoveries of $88,000 $0 and $163,000 recorded for the same periods in 2022. See Note 5 of our consolidated financial statements as of June 30, 2023 September 30, 2023, included elsewhere in this

Form 10-Q, for additional information on the activity for mortgage loans servicing rights for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

Asset Quality

Nonperforming Loans

Asset quality remained relatively strong during the second third quarter of 2023 as our nonperforming loans to total loans remained low at 0.75% 1.22% as of June 30, 2023 September 30, 2023. Nonperforming loans were $22.6 million $37.1 million at June 30, 2023 September 30, 2023 compared to $20.2 million at December 31, 2022. The increase from December 31, 2022 to June 30, 2023 September 30, 2023 was attributable to a $3.0 million $5.1 million increase in nonaccrual loans offset by and a $308,000 decrease $12.0 million increase in accruing restructured loans, offset by a $3.6 million decrease in other real estate owned and a $180,000 decrease in loans past due ninety days and still accruing. We did not recognize any interest income on nonaccrual loans during the six nine months ended June 30, 2023 September 30, 2023 or the year ended December 31, 2022.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest, and accruing restructured loans. Nonaccrual loans at June 30, 2023 September 30, 2023 comprised of $1.1 million $1.9 million of commercial real estate loans, $1.6 million in commercial and industrial loans and $10.3 million $11.6 million in residential real estate loans. Nonaccrual loans at December 31, 2022 comprised of $4.9 million in commercial real estate loans, $136,000 in commercial and industrial loans, and $5.0 million in residential real estate loans.

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Nonaccrual loans	$ 13,037	$ 10,065	$ 15,127	$ 10,065
Past due loans 90 days or more and still accruing	—	180	—	180

Accruing restructured loans	9,611	9,919	21,964	9,919
Total nonperforming loans	22,648	20,164	37,091	20,164
Foreclosed real estate	1,001	4,328	761	4,328
Total nonperforming assets	$ 23,649	$ 24,492	$ 37,852	$ 24,492
Nonperforming loans to gross loans	0.75 %	0.66 %	1.22 %	0.66 %
Nonperforming assets to total assets	0.68 %	0.71 %	1.08 %	0.71 %
Allowance for credit losses to nonperforming loans	79.88 %	68.88 %	47.61 %	68.88 %

Allowance for Credit Losses

The allowance for credit losses was $18.1 million $17.7 million at June 30, 2023 September 30, 2023 compared to $13.9 million at December 31, 2022, an increase of $4.2 million $3.8 million, or 30.3 %. 27.2%. The increase was due to the CECL adoption during the first quarter of 2023, offset by a decrease in reserves allocated to individually analyzed loans and $452,000 in charge-offs recorded during the six nine months ended June 30, 2023 September 30, 2023. The CECL approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It removes the incurred loss approach's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred.

We maintain a reserve for credit losses that consist of two components, the allowance for credit losses 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 $241,000 $294,000 as of June 30, 2023 September 30, 2023.

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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 June 30, 2023 September 30, 2023, included elsewhere in this Form 10-Q, for additional information on the on the allowance for credit losses and the allowance for unfunded commitments.

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 June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Balance, beginning of period	$ 18,947	$ 16,674	$ 13,888	$ 16,952	$ 18,091	$ 16,678	$ 13,888	$ 16,952
CECL adoption (Day 1) impact	—	—	5,055	—	—	—	5,055	—
Charge-offs:								
Construction and development	—	—	—	—	—	—	—	—
Commercial real estate	231	—	231	390	—	—	231	—

Commercial and industrial	221	—	221	—	—	—	221	390
Residential real estate	—	—	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—	—	—
Total charge-offs	452	—	452	390	—	—	452	390
Recoveries:								
Construction and development	—	—	—	—	—	—	—	—
Commercial real estate	1	2	3	4	1	1	4	5
Commercial and industrial	13	2	15	3	3	6	18	9
Residential real estate	—	—	—	—	—	—	—	—
Consumer and other	—	—	—	5	—	—	—	5
Total recoveries	14	4	18	12	4	7	22	19
Net (recoveries)/charge-offs	438	(4)	434	378	(4)	(7)	430	371
Provision for loan losses	(418)	—	(418)	104	(435)	(1,703)	(853)	(1,599)
Balance, end of period	$ 18,091	$ 16,678	$ 18,091	$ 16,678	$ 17,660	$ 14,982	$ 17,660	$ 14,982
Total loans at end of period	$3,029,524	$2,777,236	$3,029,524	$2,777,236	$ 3,038,458	$ 2,987,570	$ 3,038,458	$ 2,987,570
Average loans[1]	3,024,660	2,597,019	3,037,348	2,571,633	3,029,231	2,891,934	3,034,612	2,678,474
Net charge-offs to average loans	0.06 %	0.00 %	0.03 %	0.03 %	(0.00)%	0.00 %	0.02 %	0.02 %
Allowance for credit losses to total loans	0.60 %	0.60 %	0.60 %	0.60 %	0.58 %	0.50 %	0.58 %	0.50 %

(1) Excludes loans held for sale.

Management believes the allowance for credit losses is adequate to provide for losses inherent in the loan portfolio as of June 30, 2023 September 30, 2023.

Deposits

Total deposits increased $31.6 million $51.7 million, or 1.2% 1.9%, to $2.70 billion $2.72 billion at June 30, 2023 September 30, 2023 compared to $2.67 billion at December 31, 2022. The increase was due to a $135.5 million $171.1 million increase in time deposits and a $6.2 million increase in money market accounts, offset by a $59.9 million $67.1 million decrease in interest-bearing demand deposits, a $36.7 million $52.5 million decrease in noninterest-bearing deposits, and a $5.7 million $6.0 million decrease in savings accounts and a $1.6 million decrease in money market accounts. As of June 30, 2023 September 30, 2023 and December 31, 2022, 21.3% 20.6% and 22.9% of total deposits, respectively, were comprised of noninterest-bearing demand accounts and 78.7% 79.4% and 77.1%, respectively, of interest-bearing deposit accounts.

We had $498.1 million $741.6 million of brokered deposits, or 18.5% 27.3% of total deposits, at June 30, 2023 September 30, 2023 compared to $523.7 million, or 19.6% of total deposits, at December 31, 2022. 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

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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.

Uninsured deposits were 30.7% 27.2% of total deposits at June 30, 2023 September 30, 2023, compared to 32.5% and 28.5% 29.2% at December 31, 2022 and June 30, 2022 September 30, 2022, respectively. As of June 30, 2023 September 30, 2023, we had $1.19 billion $1.21 billion of available borrowing capacity at the Federal Home Loan Bank ($702.5 712.8 million), Federal Reserve Discount Window ($444.6 446.2 million) and various other financial institutions (fed fund lines totaling $47.5 million).

The following table summarizes our average deposit balances and weighted average rates for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

(Dollars in thousands)	Three Months Ended June 30,				Three Months Ended September 30,			
	2023		2022		2023		2022	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Noninterest-bearing demand	$ 558,907	— %	$ 611,763	— %	$ 555,074	— %	$ 599,902	— %
Interest-bearing demand deposits	146,445	2.28	166,817	0.21	111,432	1.34	161,447	0.80
Savings and money market deposits	549,720	3.37	746,879	0.63	594,664	3.45	718,454	1.60
Brokered money market deposits	421,400	5.47	450,036	0.63	455,937	5.68	486,512	1.87
Time deposits	927,478	3.72	389,449	0.43	966,408	3.96	499,577	1.14
Total interest-bearing deposits	2,045,043	3.88	1,753,181	0.55	2,128,441	4.05	1,865,990	1.48
Total deposits	$ 2,603,950	3.05	$ 2,364,944	0.40	$ 2,683,515	3.21	$ 2,465,892	1.12

(Dollars in thousands)	Six Months Ended June 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Noninterest-bearing demand	$ 568,888	— %	$ 600,117	— %	$ 564,233	— %	$ 600,045	— %
Interest-bearing demand deposits	147,848	2.01	161,148	0.18	135,576	1.82	161,249	0.39
Savings and money market deposits	553,592	3.29	726,375	0.47	567,433	3.35	723,706	0.85
Brokered money market deposits	430,222	5.16	431,098	0.40	438,888	5.34	449,772	0.93
Time deposits	902,280	3.50	415,196	0.40	923,891	3.66	443,632	0.68
Total interest-bearing deposits	2,033,942	3.69	1,733,817	0.41	2,065,788	3.81	1,778,359	0.79
Total deposits	$ 2,602,830	2.88	$ 2,333,934	0.30	$ 2,630,021	3.00	$ 2,378,404	0.59

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 June 30, 2023 September 30, 2023 and December 31, 2022, we had available borrowing capacity from the FHLB of $702.5 million $712.8 million and $633.6 million, respectively. At June 30, 2023 September 30, 2023 and December 31, 2022, we had $325.0 million and $375.0 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 June 30, 2023 September 30, 2023 and December 31, 2022. We did not have any advances outstanding under these agreements as of June 30, 2023 September 30, 2023 and December 31, 2022.

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 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 June 30, 2023 September 30, 2023 and December 31, 2022, we had $47.5 million of unsecured federal funds lines with no amounts advanced. In addition, the Company had Federal Reserve Discount Window funds available of approximately $444.6 million $446.2 million and $28.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The FRB discount window line is collateralized by a pool of construction and development, commercial real estate and commercial and industrial loans with carrying balances totaling $523.7 million $510.4 million as of June 30, 2023 September 30, 2023, as well as all of the Company's municipal and mortgage backed securities. There were no outstanding borrowings on this line as of June 30, 2023 September 30, 2023 and December 31, 2022.

At June 30, 2023 September 30, 2023 and December 31, 2022, we had $325.0 million and $375.0 million, respectively, of outstanding advances from the FHLB. Based on the values of loans pledged as collateral, we had $702.5 million $712.8 million and $633.6 million of additional borrowing availability with the FHLB as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. We also maintain relationships in the capital markets with brokers to issue certificates of deposit and money market accounts.

Capital Requirements

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

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 June 30, 2023 September 30, 2023 and December 31, 2022. The Bank exceeded all regulatory capital requirements and was considered to be "well-capitalized" as of June 30, 2023 September 30, 2023 and December 31, 2022. As of December 31, 2022, the FDIC categorized the Bank as well-capitalized under the prompt corrective action framework. There have been no conditions or events since December 31, 2022 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.

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	June 30, 2023	December 31, 2022	Regulatory Capital Ratio Requirements including fully phased-in Capital Conservation Buffer	Minimum Requirement for "Well Capitalized" Depository Institution	September 30, 2023	December 31, 2022	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	17.59 %	16.68 %	10.50 %	N/A	17.91 %	16.68 %	10.50 %	N/A
Bank	17.56 %	16.61 %	10.50	10.00 %	17.77 %	16.61 %	10.50	10.00 %
Tier 1 capital (to risk-weighted assets)								
Consolidated	16.69 %	15.99 %	8.50 %	N/A	17.03 %	15.99 %	8.50 %	N/A
Bank	16.66 %	15.93 %	8.50	8.00 %	16.89 %	15.93 %	8.50	8.00 %
CETI capital (to risk-weighted assets)								
Consolidated	16.69 %	15.99 %	7.00 %	N/A	17.03 %	15.99 %	7.00 %	N/A
Bank	16.66 %	15.93 %	7.00	6.50 %	16.89 %	15.93 %	7.00	6.50 %

Tier 1 capital (to average assets)								
Consolidated	10.03 %	9.57 %	4.00 %	N/A	10.07 %	9.57 %	4.00 %	N/A
Bank	10.01 %	9.54 %	4.00	5.00 %	9.99 %	9.54 %	4.00	5.00 %

Dividends

On July 19, 2023 October 18, 2023, the Company declared a cash dividend of $0.18 per share, payable on August 11, 2023 November 10, 2023, to common shareholders of record as of August 3, 2023 November 1, 2023. 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 June 30, 2023 September 30, 2023, included elsewhere in this Form 10-Q, for more information regarding our off-balance sheet arrangements as of June 30, 2023 September 30, 2023 and December 31, 2022.

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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.

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

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

Potential changes to our net interest income in hypothetical rising and declining rate scenarios calculated as of June 30, 2023 September 30, 2023 and December 31, 2022 are presented in the following table:

	Net Interest Income Sensitivity		Net Interest Income Sensitivity	
	12 Month Projection	24 Month Projection	12 Month Projection	24 Month Projection

(Ramp in basis points)	+200	-200	+200	-200	+200	-200	+200	-200
June 30, 2023	1.90 %	0.20 %	20.50 %	10.80 %				
September 30, 2023					1.70 %	(1.00)%	12.10 %	7.40 %
December 31, 2022	(1.60)%	2.50 %	21.60 %	12.90 %	(1.60)%	2.50 %	21.60 %	12.90 %

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				Economic Value of Equity Sensitivity			
(Shock in basis points)	+200	+100	-100	-200	+200	+100	-100	-200
June 30, 2023	(11.60)%	(5.80)%	6.70 %	12.90 %				
September 30, 2023					(13.80)%	(6.90)%	7.00 %	15.90 %
December 31, 2022	(11.90)%	(5.90)%	6.90 %	13.10 %	(11.90)%	(5.90)%	6.90 %	13.10 %

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 June 30, 2023 September 30, 2023. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2023 September 30, 2023.

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Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2023 September 30, 2023, 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 June 30, 2023 September 30, 2023 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 2022 Form 10-K, and as disclosed in "Part II – Item 1A. – Risk Factors" of our Quarterly Reports Report on Form 10-Q for the preiod quarter ended March 31, 2023, 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 2022 Form 10-K and the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2023.

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

Not applicable. The following table summarizes the repurchases of our common shares for the three months ended September 30, 2023.

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2023 to July 31, 2023	—	$ —	—	—
August 1, 2023 to August 31, 2023	—	—	—	—
September 1, 2023 to September 30, 2023	38,689	19.69	38,689	961,311
Total	38,689	$ 19.69	38,689	961,311

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

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Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

On May 9, 2023, Don T.P. Leung, director and Vice Chairman of the Board of Directors of the Company, adopted a trading plan intended to satisfy the conditions under Rule 10b5-1(c) of the Exchange Act. Mr. Leung's plan is for the sale of up to 300,000 shares of our common stock beginning on or after August 9, 2023 in amounts and prices determined in accordance with formulas set forth in the plan and terminates on the earlier of the date all the shares under the plan are sold or August 8, 2024.

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

Item 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

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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: August 4, 2023 November 7, 2023	By: /s/ Nack Y. Paek Nack Y. Paek Chief Executive Officer
Date: August 4, 2023 November 7, 2023	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: August 4, 2023 November 7, 2023

/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: August 4, 2023 November 7, 2023

/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 June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nack Paek, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Dated: August 4, 2023 November 7, 2023

/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 June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lucas Stewart, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Dated: August 4, 2023 November 7, 2023	/s/ Lucas Stewart
	Lucas Stewart
	Chief Financial Officer
	(Principal Financial Officer)

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