METROCITY BANKSHARES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

CONTENTS

Crowe LLP
Independent Member Crowe Global

Independent Auditor's Report

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Metrocity Bankshares, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders equity, and cash flows for the years then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards general accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Improvement Act (FDICIA) and our report dated March 29, 2019 expressed an unqualified opinion.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Crowe LLP

Crowe LLP

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

Atlanta, Georgia
March 29, 2019

METROCITY BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(Dollar amounts in thousands)

	2018	2017
ASSETS		
Cash and due from banks	$ 130,263	$ 94,371
Federal funds sold	8,164	1,462
Cash and cash equivalents	138,427	95,833
Securities purchased under agreements to resell	15,000	15,000
Securities available for sale (at fair value)	18,888	21,051
Loans, less allowance for loan losses of $6,645 and $6,925, respectively	1,136,930	1,060,048
Loans held for sale	56,865	31,802
Accrued interest receivable	4,957	4,756
Federal Home Loan Bank stock	1,163	6,092
Premises and equipment, net	14,391	12,384
SBA servicing asset, net	8,446	9,366
Mortgage servicing asset, net	14,934	6,843
Bank owned life insurance	19,749	19,271
Other assets	2,900	6,521
Total assets	$ 1,432,650	$ 1,288,967
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$ 299,182	$ 260,251
Interest-bearing	945,050	759,733
Total deposits	1,244,232	1,019,984
Federal Home Loan Bank advances	-	120,000
Other borrowings	4,257	5,039
Accrued interest payable	1,251	401
Other liabilities	14,302	8,428
Total liabilities	1,264,042	1,153,852
Shareholders' equity:		
Common stock, $0.01 par value, 40,000,000 shares authorized, 12,129,031 and 12,037,441 shares issued and outstanding	121	120
Additional paid-in capital	40,036	38,538
Retained earnings	128,555	96,525
Accumulated other comprehensive loss	(104)	(68)
Total shareholders' equity	168,608	135,115
Total liabilities and shareholders' equity	$ 1,432,650	$ 1,288,967

See accompanying notes to the consolidated financial statements

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2018 and 2017
(Dollar amounts in thousands, except per share data)

	2018	2017
Interest and dividend income:		
Loans, including fees	$ 70,246	$ 59,110
Other investment income	2,169	1,190
Federal funds sold	464	214
Total interest income	72,879	60,514
Interest expense:		
Deposits	14,011	7,729
FHLB advances and other borrowings	664	890
Total interest expense	14,675	8,619
Net interest income	58,204	51,895
Provision for loan losses	1,237	3,058
Net interest income after provision for loan losses	56,967	48,837
Noninterest income:		
Service charges on deposit accounts	1,036	1,274
Other service charges, commissions and fees	10,395	8,237
Gain on sale of residential mortgage loans	5,679	3,035
Mortgage servicing income, net	11,994	8,168
SBA servicing income, net	3,119	4,527
Gain on sale of SBA loans	4,616	6,347
Other income	770	817
Total noninterest income	37,609	32,405
Noninterest expense:		
Salaries and employee benefits	23,569	17,956
Occupancy	4,086	2,968
Data processing	842	801
Advertising	613	634
Federal deposit insurance	395	403
Other operating	9,070	8,430
Total noninterest expense	38,575	31,192
Income before provision for income taxes	56,001	50,050
Provision for income taxes	14,667	18,153
Net income available to common shareholders	$ 41,334	$ 31,897
Earnings per share:		
Basic	$ 3.42	$ 2.67
Diluted	$ 3.38	$ 2.64
Cash dividend declared per common share	$ 0.76	$ 0.40

See accompanying notes to the consolidated financial statements

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(Dollar amounts in thousands)

	2018	2017
Net income	$ 41,334	$ 31,897
Other comprehensive income (loss):		
Unrealized holding (losses) on securities available for sale arising during the period	(46)	(10)
Tax effect	(3)	3
Other comprehensive loss	(49)	(7)
Comprehensive income	$ 41,285	$ 31,890

See accompanying notes to the consolidated financial statements

METROCITY BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2018 and 2017

(Dollar amounts in thousands)

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance, January 1, 2017	11,821,255	$ 118	$ 37,137	$ 70,067	$ (61)	$ 107,261
Stock based compensation expense	-	-	718	-	-	718
Vesting of restricted stock	86,186	1	(1)	-	-	-
Stock option exercise	130,000	1	684	-	-	685
Net income	-	-	-	31,897	-	31,897
Other comprehensive loss	-	-	-	-	(7)	(7)
Dividends on common stock	-	-	-	(5,439)	-	(5,439)
Balance, December 31, 2017	12,037,441	120	38,538	96,525	(68)	135,115
Stock based compensation expense	-	-	1,499	-	-	1,499
Vesting of restricted stock	91,590	1	(1)	-	-	-
Net income	-	-	-	41,334	-	41,334
Impact of adoption of new accounting standard *(1)*	-	-	-	(13)	13	-
Other comprehensive loss	-	-	-	-	(49)	(49)
Dividends on common stock	-	-	-	(9,291)	-	(9,291)
Balance, December 31, 2018	12,129,031	$ 121	$ 40,036	$ 128,555	$ (104)	$ 168,608

(1) Represents the impact of the adoption of Accounting Standards Updated ("ASU") No. 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220)

See accompanying notes to the consolidated financial statements

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(Dollar amounts in thousands)

	2018	2017
Cash flow from operating activities:		
Net income	$ 41,334	$ 31,897
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation, amortization and accretion	899	593
Provision for loan losses	1,237	3,058
Stock based compensation expense	1,499	718
Write-down of abandoned leasehold improvements	-	289
Gain on sale of foreclosed real estate	36	8
Deferred income tax expense	355	42
Origination of residential real estate loans held for sale	(716,140)	(235,119)
Proceeds from sale of residential real estate loans	541,690	365,044
Gain on sale of residential mortgages	(5,679)	(3,035)
Origination of SBA loans held for sale	(121,009)	(85,932)
Proceeds from sales of SBA loans held for sale	97,957	92,278
Gain on sale of SBA loans	(4,616)	(6,347)
Increase in cash surrender value of bank owned life insurance	(478)	(510)
Increase in accrued interest receivable	(201)	(988)
Decrease (increase) in SBA servicing rights	920	(512)
Increase in mortgage servicing rights	(8,091)	(6,843)
Decrease (increase) in other assets	2,644	(3,687)
Increase in accrued interest payable	850	45
Increase in other liabilities	5,874	813
Net cash flow (used) provided by operating activities	(160,919)	151,812
Cash flow from investing activities:		
Decrease (increase) in loans, net	104,354	(263,086)
Proceeds from sales, calls or paydowns of securities available for sale	2,075	8,040
Purchase of securities under resell agreements	-	(15,000)
Purchase of securities available for sale	-	(1,250)
Sale (purchase) of Federal Home Loan Bank stock	4,929	(867)
Purchases of premises and equipment	(2,855)	(5,912)
Proceeds from sales of foreclosed real estate owned	835	133
Net cash flow provided (used) by investing activities	109,338	(277,942)
Cash flow from financing activities:		
Dividends paid - common stock	(9,291)	(5,401)
Exercise of stock options	-	685
Increase in deposits, net	224,248	149,117
Decrease in other borrowings, net	(782)	(302)
Repayments of Federal Home Loan Bank advances	(120,000)	(488,700)
Federal Home Loan Bank advances	-	500,000
Net cash flow provided by financing activities	94,175	155,399

See accompanying notes to the consolidated financial statements

METROCITY BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(Dollar amounts in thousands)

	2018	2017
Net change in cash and cash equivalents	42,594	29,269
Cash and cash equivalents at beginning of year	95,833	66,564
Cash and cash equivalents at end of year	$ 138,427	$ 95,833
Supplemental schedule of noncash investing and financing activities:		
Transfer of loan principal and accrued interest to foreclosed real estate, net of write-downs	$ 261	$ 387
Supplemental disclosures of cash flow information- Cash paid during the year for:		
Interest	$ 13,825	$ 8,575
Income taxes	$ 10,400	$ 20,087

See accompanying notes to the consolidated financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of MetroCity Bankshares Inc. (the "Company") conform to generally accepted accounting principles of the United States of America and with general practices within the banking industry. The following is a description of the more significant of those policies that the Company follows in preparing and presenting its consolidated financial statements.

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 29, 2019, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

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

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

Purchased Loans: Purchased loans having evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). ASC 310-30 requires that acquired credit-impaired loans to be recorded at fair value and prohibits carryover of the related allowance for loan losses.

The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The Company must estimate expected cash flows at each reporting date. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and adjust accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method. Loans acquired that do not have evidence of credit deterioration since origination are accounted for under ASC 310-20, *Nonrefundable Fees and Other Costs* ("ASC 310-20"). Interest is recognized using the simple interest method.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. These amounts were $14.4 million and $13.3 million as of December 31, 2018 and 2017, respectively and are included in Cash and Due from Banks.

Securities Purchased Under Agreements to Resell: The Company enters into purchases of securities under agreements to resell substantially identical securities. Securities purchased under agreements to resell consist of U.S. Treasury securities. The amounts advanced under these agreements are reflected as assets. It is the Company's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company's rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Company's account maintained at the Federal Reserve Bank or into a third-party custodian's account designated under a written custodial agreement that explicitly recognizes the Company's interest in the securities. These agreements renew monthly until cancelled.

Investment Securities: Debt securities that management has the positive intent and the Company has the ability to hold to maturity are classified as securities held to maturity and are recorded at amortized cost. Securities not classified as securities held to maturity, including equity securities with readily, determinable fair values, are securities available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of the related tax effect. There were no held to maturity or trading securities at December 31, 2018 and 2017.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. A decline in the market value of any available for sale or held to maturity security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. The general standards of accounting for other than temporary impairment (OTTI) losses requires the recognition of an OTTI loss in earnings only when an entity (1) intends to sell the debt security; (2) more likely than not will be required to sell the security before recovery of its amortized cost basis or (3) does not expect to recover the entire amortized cost basis of the security. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the amortized cost of securities sold.

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

The Company believes its holdings in the stock is ultimately recoverable at par value and therefore determined that FHLB stock was not other-than-temporarily impaired. In addition, the Company has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

When interest accrual is discontinued, all unpaid accrued interest is reversed against current interest income. Interest income is subsequently recognized only to the extent cash payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame.

A loan is considered impaired when, based on current information and events, it is probable the Company will 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 are not classified as impaired. Management determines 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 are 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 are included in the allowance for loan losses.

The Company has sold guaranteed portions of Small Business Administration (SBA) loans in the SBA secondary market and continues to service these loans. Gains or losses on guaranteed portions of SBA loans which are sold are recorded in other income, based on the net proceeds received and the basis in the portion of the loan sold. The basis in the portion of the loan sold is determined by allocating a portion of the loan carrying value to the portion sold based on its fair value, relative to the fair value of the portion of the loan retained and the estimated servicing asset.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. The allowance for loan losses is increased by provision charges to income and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated probable inherent loan losses and estimated losses relating to specifically identified loans. Management's periodic evaluation of the adequacy of the allowance is based upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in our market areas.

This evaluation is inherently subjective as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on impaired loans.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance for loan losses may consist of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable the Company will 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 are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all 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. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Impaired loans are measured by either the present value of the 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 the impairment, if any, and any subsequent changes are included in the allowance for loan losses.

General allowances are established for non-impaired loans. These loans are assigned a risk rating, and the allocated allowance for loan losses is determined based upon the loss percentage factors that correspond to each risk rating. Loss percentage factors are based on both historical loss experience and peer data, adjusted for qualitative factors. The qualitative factors consider credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the loss factors. Accordingly, these loss factors are reviewed periodically and modified by management. General allowances are established for loans that can be pooled into pools based on similar characteristics. Loss percentage factors applied to these pools are based on an analysis of historical charge-off experience and expected losses given default derived from the Company's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and line of business. Adjustments are also made to the allowance for the pools after an assessment of internal and external influences on credit quality that have not yet been reflected in the historical loss or risk rating data.

The general allowances are determined based on consideration of historical loss data, the various risk characteristics of each loan segment, and whether the loans are within or outside the Company's general market area. Risk characteristics relevant to each portfolio segment are as follows:

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.

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.

Consumer – Loans in this segment are made to individuals and are secured by personal assets. 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 the 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.

Other – Loans in this segment include loans for farmland and other loans. 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.

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

Realized gains and losses on sales of loans are based upon specific identification of the loan sold and included in noninterest income. Loans held for sale are generally sold with servicing rights retained and recorded at fair value at sale as servicing assets. A portion of the premium on sale of SBA loans is recognized as gains on sales of loans at the time of the sale. The remaining portion of the premium related to the unsold principal of the SBA loans is deferred and amortized over the remaining life of the loans as an adjustment to yield.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation, computed principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements have a useful life equal to the shorter of useful life or lease term. Maintenance and repairs that do not extend the useful life of the premises and equipment are charged to expense. The useful lives of premises and equipment are as follows:

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

Intangible Assets: Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values.

SBA and USDA Loan Servicing Rights: SBA and USDA Loan servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the loans between the loan servicing rights and the loans based on their relative fair values. Capitalized servicing rights are measured at fair value at each reporting date and changes in fair value are reported in earnings in the period they occur. Impairment of loan servicing rights is assessed based on the fair value of those rights. Fair values are estimated using either an independent valuation or by discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized loan servicing rights for a stratum exceed their fair value.

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Bank Owned Life Insurance (BOLI): The Company has purchased life insurance on the lives of certain key officers of the Company. The Company purchased these life insurance policies to generate income to offset the Company's cost of providing various employee benefits. BOLI is recorded at its cash surrender value, net of surrender charges and/or early termination charges that are probable at settlement. The increase in cash value is recorded as other income. As of December 31, 2018 and 2017 the cash surrender value was $19.8 million and $19.3 million resulting in other income for 2018 and 2017 of $478 thousand and $510 thousand, respectively.

Stock Based Compensation Plan: The Company follows Financial Accounting Standards Board (FASB) ASC 718, *Compensation - Stock Compensation*, which requires all share-based payments to employees, including grants of employee stock options and restricted stock, to be recognized as compensation expense in the financial statements based on fair value. FASB ASC 718 requires recognition of expense equal to the fair value of the option or restricted stock share, determined using the calculated value method, over the vesting period of the option. As of December 31, 2018, there was $1.2 million unrecognized compensation cost related to options and $1.5 million in unrecognized compensation costs for restricted stock outstanding. The compensation cost for stock options, and restricted stock recognized in net income was $1.5 million and $718 thousand for the years ended December 31, 2018 and 2017, respectively.

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

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

In accordance with ASC 740-10 Income Taxes it is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of income taxes and to disclose the recognized interest and penalties, if material. Management has evaluated all tax positions that could have a significant effect on the financial statements and determined the Company had no uncertain tax positions at December 31, 2018 and 2017. Further, all years subsequent to 2015 remain subject to evaluation.

Earnings Per Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

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

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

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

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

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Advertising: The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2018 and 2017 were $613 thousand and $634 thousand, respectively.

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

Reclassifications: Certain amounts from the 2017 financial statements have been reclassified to conform to the current year presentation.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220)* to provide guidance on the treatment of the income tax effects of items in other comprehensive income resulting from the recently enacted Tax Cuts and Jobs Act. Under previous guidance, when revaluing any deferred tax assets or liabilities to the newly enacted rate, any associated items in accumulated other comprehensive income would not have been revalued reflecting the appropriate tax rate and would have been instead left in accumulated other comprehensive income as a stranded tax effect. The new standard allows for the stranded tax effects resulting from the Act to be reclassified from accumulated other comprehensive income to retained earnings. Adoption is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within the fiscal year with early adoption permitted. The adoption of this ASU in the first quarter of 2018 did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718)* to provide clarity, reduce diversity in practice, and reduce cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, regarding a change to the terms or conditions of a share-based payment award. ASU 2017-09 provides guidance concerning which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Specifically, an entity is to account for the effects of a modification, unless all of the following are satisfied: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or as a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this ASU. The amendments of ASU 2017-09 became effective for the Company on January 1, 2018 and had no impact on the Company's consolidated financial statements. However, should the Company modify the terms or conditions of any share-based payment awards in the future, this modification would be evaluated and disclosed as appropriate based on the amendments of ASU 2017-09.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of the FASB Accounting Standards Codification).* ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The amendments of ASU 2016-01 include: (i) requiring equity investments, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income; (ii) requiring a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) requiring the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requiring an entity that has elected the fair value option to measure the fair value of a liability to present separately in other comprehensive income the portion of the change in the fair value resulting from a change in the instrument-specific credit risk; (vi) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The amendments of ASU 2016-01 became effective for the Company on January 1, 2018. The

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company's investments in member bank stock, which are equity securities that do not have readily determinable fair values, are not within the scope of ASU 2016-01. See Note 1 – Summary of Significant Accounting Policies, "Federal Home Loan Bank Stock" included in the Company's 2018 Consolidated Financial Statements for information regarding our investment in member bank stock. Adoption of the amendments of ASU 2016-01 resulted in changes to the Company's fair value related disclosures, specifically amendments (iii) which eliminated the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet and (iv) which required the use of the exit price notion when measuring the fair value of the loan portfolio. Changes to the Company's fair value related disclosures are presented in Note 8 – Fair Value of these interim financial statements. The adoption of ASU 2016-01 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer, as well as enhanced disclosure requirements. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 to fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08 which clarified the revenue recognition implementation guidance on principal versus agent considerations and is effective during the same period as ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 which clarified the revenue recognition guidance regarding the identification of performance obligations and the licensing implementation and is effective during the same period as ASU 2014-09. In May 2016, the FASB issued ASU 2016-12 which narrowly amended the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax and transition. ASU 2016-12 is effective during the same period as ASU 2014-09.

The majority of the Company's revenue consists of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09. The Company adopted the new standard beginning January 1, 2018. The Company completed its analysis for determining the extent ASU 2014-09 will affect its noninterest income, primarily in the area of fees and service charges on deposit accounts and trade finance activities. Based on the analysis performed, the Company did not have a material change in the timing or measurement of revenues related to noninterest income. This guidance did not have a material impact on the Company's consolidated financial statements. See Note 12 - Revenue Recognition for further details.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and similar instruments) and net investments in leases recognized by a lessor. For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The assets will be grossed up for the allowance of expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. Adoption is effective for interim and annual reporting periods beginning after December 15,

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2019. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. The Company has selected a third-party software solutions to be used in developing an expected credit loss model compliant with ASU 2016-13 and will continue to evaluate the impact of this new accounting standard through its effective date.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. For leases with a term of 12 months or less, a lessee can make a policy election by class of underlying asset to not recognize an asset and corresponding liability. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases and amounts previously recognized in accordance with the business combinations guidance for leases. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

For public business entities, not-for-profits that have issued or are a conduit bond obligor for listed securities, and employee benefit plan that file with the Securities and Exchange Commission, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all entities. The Company is currently evaluating the impact of this new accounting standard on the financial statements.

The Company has further evaluated other Accounting Standards Updates issued during 2018 but does not expect updates other than those summarized above to have a material impact on the consolidated financial statements.

NOTE 2 –SECURITIES AVAILABLE FOR SALE

The amortized costs, gross unrealized gains and losses, and estimated fair values of securities available for sale at December 31, 2018 and 2017, are summarized as follows:

	December 31, 2018			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government entities and agencies	$ 15,183	$ -	$ -	$ 15,183
States and political subdivisions	1,248	-	(35)	1,213
Mortgage-backed GSE residential	2,607	-	(115)	2,492
Total	$ 19,038	$ -	$ (150)	$ 18,888

NOTE 2 –SECURITIES AVAILABLE FOR SALE (Continued)

	December 31, 2017			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government entities and agencies	$ 16,661	$ -	$ -	$ 16,661
States and political subdivisions	1,249	-	(14)	1,235
Mortgage-backed GSE residential	3,245	-	(90)	3,155
Total	$ 21,155	$ -	$ (104)	$ 21,051

The amortized costs and estimated fair values of investment securities available for sale at December 31, 2018, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities due at a single maturity date separately:

	Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 616	$ 615
Due after one year but less than five years	2,893	2,881
Due after five years but less than ten years	4,673	4,651
Due in more than ten years	8,249	8,249
Mortgage-backed GSE residential	2,607	2,492
Total	$ 19,038	$ 18,888

There were no securities pledged as of December 31, 2018 to secure public deposits and repurchase agreements.

Included in shareholders' equity at December 31, 2018 and 2017 are $150 thousand and $104 thousand respectively, of gross unrealized losses on investment securities available for sale, net of tax of $46 thousand and $36 thousand respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2018			
	Twelve Months or Less		Over Twelve Months	
(Dollars in thousands)	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions	$ (35)	$ 1,213	$ -	$ -
Mortgage-backed GSE residential	-	-	(115)	2,492
Total	$ (35)	$ 1,213	$ (115)	$ 2,492

NOTE 2 –SECURITIES AVAILABLE FOR SALE (Continued)

	December 31, 2017			
	Twelve Months or Less		Over Twelve Months	
(Dollars in thousands)	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions	$ (14)	$ 846	$ -	$ -
Mortgage-backed GSE residential	-	-	(90)	3,149
	$ (14)	$ 846	$ (90)	$ 3,149

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows, 1)OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income, The credit loss is defined as the difference between the present value of the cash flows expected to be collected and amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

At December 31, 2018 the six debt securities with unrealized losses have depreciated 4.00% from the Company's amortized cost basis.

States and political subdivisions. The Company's unrealized loss on three investments in bonds to states and political subdivisions relate to interest rate increases. Management currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because the Company does not plan to sell the investments, and because it is not more likely than not that the Company will be required to sell the investments before the recovery of the par value, which may be at maturity, management does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

Mortgage-backed GSE residential. The Company's unrealized loss on three investments in residential GSE mortgage-backed securities was caused by interest rate increases. The contractual cash flows of the investment are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the security would not be settled at a price less than the amortized cost base of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has no immediate plans to sell the investment, and because it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost base, which may be maturity, management does not consider this investment to be other-than-temporarily impaired at December 31, 2018.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans at December 31, 2018 and 2017 are summarized as follows:

	December 31,	
(Dollars in thousands)	2018	2017
Construction and development	$ 42,718	$ 45,132
Commercial real estate	396,598	369,346
Commercial and industrial	33,100	33,671
Consumer	2,804	8,934
Residential real estate	670,341	611,258
Other	153	252
Gross loans	1,145,714	1,068,593
Unearned income	(2,139)	(1,620)
Allowance for loan losses	(6,645)	(6,925)
Loans, net	$ 1,136,930	$ 1,060,048

The Company is not committed to lend additional funds to borrowers with non-accrual 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. At December 31, 2018 and 2017, the Company had participations sold of $-0- and $1.6 million, respectively. For SBA loans, see Note 9.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The allowance for loan losses for the twelve months ended December 31, 2018, by portfolio segment, is as follows.

(Dollars in thousands)	Construction and Development	Commercial Real Estate	Commercial and Industrial	Consumer	Residential Real Estate	Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 127	$ 2,135	$ 261	$ 1,167	$ 3,048	$ 3	$ 184	$ 6,925
Charge-offs	-	(88)	(39)	(1,939)	-	-	-	(2,066)
Recoveries	-	22	-	527	-	-	-	549
Provision	108	532	158	632	(6)	(3)	(184)	1,237
Ending balance	$ 235	$ 2,601	$ 380	$ 387	$ 3,042	$ -	$ -	$ 6,645
Ending balance - individually evaluated for impairment	$ 117	$ 872	$ 110	$ -	$ -	$ -	$ -	$ 1,099
Ending balance - collectively evaluated for impairment	$ 118	$ 1,729	$ 270	$ 3	$ 3,042	$ -	$ -	$ 5,162
Ending balance - acquired with deteriorated credit quality	$ -	$ -	$ -	$ 384	$ -	$ -	$ -	$ 384
Loans, net of fees:								
Ending balance - individually evaluated for impairment	$ 1,360	$ 8,074	$ 986	$ -	$ 1,722	$ -	$ -	$ 12,142
Ending balance - collectively evaluated for impairment	$ 40,928	$ 386,889	$ 32,040	$ 163	$ 668,619	$ 153	$ -	$ 1,128,792
Ending balance - acquired with deteriorated credit quality	$ -	$ -	$ -	$ 2,641	$ -	$ -	$ -	$ 2,641
Ending balance	$ 42,288	$ 394,963	$ 33,026	$ 2,804	$ 670,341	$ 153	$ -	$ 1,143,575

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The allowance for loan losses for the twelve months ended December 31, 2017, by portfolio segment, is as follows.

(Dollars in thousands)	Construction and Development	Commercial Real Estate	Commercial and Industrial	Consumer	Residential Real Estate	Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 116	$ 2,854	$ 257	$ 4	$ 1,656	$ 1	$ 582	$ 5,470
Charge-offs	-	(131)	-	(1,513)	-	-	-	(1,644)
Recoveries	-	41	-	-	-	-	-	41
Provision	11	(629)	4	2,676	1,392	2	(398)	3,058
Ending balance	$ 127	$ 2,135	$ 261	$ 1,167	$ 3,048	$ 3	$ 184	$ 6,925
Ending balance - individually evaluated for impairment	$ -	$ 271	$ 173	$ -	$ -	$ -	$ -	$ 444
Ending balance - collectively evaluated for impairment	$ 127	$ 1,864	$ 88	$ -	$ 3,048	$ 3	$ 184	$ 5,314
Ending balance - acquired with deteriorated credit quality	$ -	$ -	$ -	$ 1,167	$ -	$ -	$ -	$ 1,167
Loans, net of fees:								
Ending balance - individually evaluated for impairment	$ 2,484	$ 5,562	$ 918	$ -	$ -	$ -	$ -	$ 8,964
Ending balance - collectively evaluated for impairment	$ 42,322	$ 362,550	$ 32,693	$ 238	$ 611,258	$ 252	$ -	1,049,313
Ending balance - acquired with deteriorated credit quality	$ -	$ -	$ -	$ 8,696	$ -	$ -	$ -	$ 8,696
Ending balance	$ 44,806	$ 368,112	$ 33,611	$ 8,934	$ 611,258	$ 252	$ -	$ 1,066,973

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans as of December 31, 2018 and 2017, by portfolio segment, are as follows:

(Dollars in thousands) December 31, 2018	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Construction and development	$ 1,360	$ -	$ 1,360	$ 1,360	$ 117	$ 1,922
Commercial real estate	8,144	5,312	2,967	8,279	872	7,474
Commercial and industrial	986	302	684	986	110	1,165
Residential real estate	1,722	1,722	-	1,722	-	1,705
Total	$ 12,212	$ 7,336	$ 5,011	$ 12,347	$ 1,099	$ 12,266

(Dollars in thousands) December 31, 2017	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Construction and development	$ 2,484	$ 2,484	$ -	$ 2,484	$ -	$ 2,610
Commercial real estate	5,619	2,907	2,959	5,866	271	6,972
Commercial and industrial	918	76	957	1,033	173	900
Total	$ 9,021	$ 5,467	$ 3,916	$ 9,383	$ 444	$ 10,482

Cash basis interest income recognized on impaired loans was $1.01 million and $533 thousand for 2018 and 2017, respectively.

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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. Following are the delinquent amounts, by portfolio segment, as of December 31, 2018 and 2017:

(Dollars in thousands) December 31, 2018	Current	30-89 Days	Accruing Greater than 89 Days	Total Accruing Past Due	Non-accrual	Total Financing Receivables
Construction and development	$ 42,288	$ -	$ -	$ -	$ -	$ 42,288
Commercial real estate	390,601	1,102	-	1,102	3,260	394,963
Commercial and industrial	32,315	26	-	26	685	33,026
Consumer	2,804	-	-	-	-	2,804
Residential real estate	651,439	17,180	-	17,180	1,722	670,341
Other	153	-	-	-	-	153
Total	$ 1,119,600	$ 18,308	$ -	$ 18,308	$ 5,667	$ 1,143,575

(Dollars in thousands) December 31, 2017	Current	30-89 Days	Accruing Greater than 89	Total Accruing Past Due	Non-accrual	Total Financing Receivables
Construction and development	$ 42,322	$ -	$ -	$ -	$ 2,484	$ 44,806
Commercial real estate	363,356	2,880	-	2,880	1,876	368,112
Commercial and industrial	32,655	95	-	95	861	33,611
Consumer	7,896	1,038	-	1,038	-	8,934
Residential real estate	597,718	11,678	-	11,678	1,862	611,258
Other	252	-	-	-	-	252
Total	$ 1,044,199	$ 15,691	$ -	$ 15,691	$ 7,083	$ 1,066,973

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

- Loans rated Pass – Loans in these categories have low to average risk.
- Loans rated Special Mention – The loan does not presently expose the Company to a sufficient degree of risk to warrant adverse classification, but does possess deficiencies deserving close attention.
- Loans rated Substandard – Loans are inadequately protected by the current sound worth and paying capability of the obligor or of the collateral pledged, if any.
- Loans rated Doubtful – 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 - Loans classified Loss are considered uncollectible and such little value that there continuance as bankable assets is not warranted.

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

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following presents the Company's loans, included purchased loans, by risk rating based on the most recent information available:

(Dollars in thousands) December 31, 2018	Construction and Development	Commercial Real Estate	Commercial and Industrial	Consumer	Residential Real Estate	Other	Total
Rating:							
Pass	$ 40,928	$ 383,857	$ 32,040	$ 2,804	$ 667,249	$ 153	$ 1,127,031
Special Mention	-	5,112	-	-	-	-	5,112
Substandard	1,360	5,994	986	-	3,092	-	11,432
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 42,288	$ 394,963	$ 33,026	$ 2,804	$ 670,341	$ 153	$ 1,143,575

(Dollars in thousands) December 31, 2017	Construction and Development	Commercial Real Estate	Commercial and Industrial	Consumer	Residential Real Estate	Other	Total
Rating:							
Pass	$ 42,322	$ 359,632	$ 32,693	$ 8,934	$ 611,258	$ 252	$ 1,055,091
Special Mention	-	5,119	-	-	-	-	5,119
Substandard	2,484	3,361	918	-	-	-	6,763
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 44,806	$ 368,112	$ 33,611	$ 8,934	$ 611,258	$ 252	$ 1,066,973

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Purchased Credit Impaired Loans:

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Loans are recorded under the scope of ASC 310-30 when it is deemed probable at acquisition that all contractually required payments will not be collected.

Loans within the scope of ASC 310-30 are initially recorded at fair value and are evaluated for impairment on an ongoing basis. As of December 31, 2018 and 2017, the Company had auto loan pools included within the consumer segment of loans outstanding that are accounted for under ASC 310-30 with a carrying value of $2.6 million and $8.7 million, respectively. At December 31, 2018 and 2017 the allowance for loan losses allocated on these loans was $384 thousand and $1.2 million, respectively. Interest income recognized on these loans was $509 thousand and $2.1 million for 2018 and 2017.

Troubled Debt Restructures:

In this current real estate environment it has become more common to restructure or modify the terms of certain loans under certain conditions (i.e. troubled debt restructures or "TDRs"). In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable real estate market. When we have modified the terms of a loan, we usually either reduce or defer payments for a period of time. We have not forgiven any material principal amounts on any loan modifications to date. Non-performing TDRs are generally placed on non-accrual under the same criteria as all other loans.

Our policy is to return non-accrual TDR loans to accrual status when all the principal and interest amounts contractually due, pursuant to its modified terms, are brought current and future payments are reasonably assured. Our policy also considers payment history of the borrower, but is not dependent upon a specific number of payments. The Company recorded a specific reserve of $523 thousand and $444 thousand, as of December 31, 2018 and 2017, and recognized no partial charge offs on the TDR loans described above during the year ended December 31, 2018 and 2017. During 2018 and 2017 there were no defaults on troubled debt restructurings. During 2018, we modified one commercial real estate loan. The modification of this loan did not result in a permanent reduction of the recorded investment in the loan, but did result in a payment deferment period on the loan. The total recorded investment in the modified loan as of December 31, 2018 was $503 thousand. During 2017 there were no loans modified.

Loans are modified to minimize loan losses when we believe the modification will improve the borrower's financial condition and ability to repay the loan. We typically do not forgive principal. We generally either defer, or decrease monthly payments for a temporary period of time. A summary of the types of concessions for loans classified as troubled debt restructurings are presented in the table below:

(Dollars in thousands) Type of Concession	December 31, 2018	December 31, 2017
Extension of maturity date	$ 3,311	$ 2,967

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents loans by portfolio segment modified as TDRs and the corresponding recorded investment, which includes accrued interest and fees, as of December 31, 2018 and 2017.

	December 31, 2018		December 31, 2017	
(Dollars in thousands) Type	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial real estate	6	$ 3,527	6	$ 2,960
Commercial and industrial	1	116	1	108
Total	7	$ 3,643	7	$ 3,068

NOTE 4 - PREMISES AND EQUIPMENT

The major classes of premises and equipment and the total accumulated depreciation at December 31, 2018 and 2017 are as follows:

(Dollars in thousands)	December 31, 2018	December 31, 2017
Land	$ 2,604	$ 2,604
Building	7,691	7,058
Leasehold improvements	2,849	2,264
Furniture, fixtures and equipment	3,306	2,695
Computer equipment	1,413	1,146
Computer software	371	326
Construction in process	725	67
	18,959	16,160
Accumulated depreciation	(4,568)	(3,776)
Total premises and equipment, net	$ 14,391	$ 12,384

Depreciation expense for the years ended December 31, 2018 and 2017 was $848 thousand and $531 thousand, respectively.

The Company has operating leases on the buildings where the branches are located and various other locations. Total rent expense was $1.8 million and $1.6 million for the years ended December 31, 2018 and 2017, respectively.

(Continued)

NOTE 4 - PREMISES AND EQUIPMENT (Continued)

The following is a schedule by years of future minimum lease payments under non-cancellable operating leases as of December 31, 2018.

Year ending December 31, 2018 *(Dollars in thousands)*		
2019	$	1,642
2020		1,602
2021		1,550
2022		1,326
2023		971
Thereafter		3,162
Total minimum lease payments	$	10,253

NOTE 5 - DEPOSITS

Deposit account balances at December 31, 2018 and 2017 are summarized as follows:

(Dollars in thousands)		2018		2017
Non - interest bearing demand deposits	$	299,182	$	260,251
Interest-bearing deposits		121,261		119,446
Brokered time deposits		53,477		73,477
Time deposits		770,312		566,810
Total deposits	$	1,244,232	$	1,019,984

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2018 and 2017 were approximately $269.5 million and $247.7 million, respectively.

Maturities of time deposits at December 31, 2018 are summarized as follows:

Year Ending December 31, *(Dollars in thousands)*		
2019	$	807,025
2020		11,324
2021		2,269
2022		2,575
2023		596
Total	$	823,789

At December 31, 2018 and 2017, overdraft demand deposits reclassified to loans totaled $127 thousand and $262 thousand, respectively.

(Continued)

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank (FHLB) at December 31, 2018 and 2017 are summarized as follows:

(Dollars in thousands) Interest Rate	Rate Type	Maturity Date	December 31, 2018	December 31, 2017
1.29%	Fixed Rate	January 29, 2018	$ -	$ 20,000
1.53%	Fixed Rate	March 26, 2018	-	100,000
		Total	$ -	$ 120,000

The aggregate of the advances is collateralized by the Company's FHLB stock, the Company's deposits with the FHLB and pledged commercial and residential real estate loans, which totaled $724.0 million at December 31, 2018 and $520.8 million at December 31, 2017.

At December 31, 2018 and 2017, the Company had Federal funds lines available with correspondent banks of approximately $47.5 million. These lines have various terms, rates, and maturities. The Company had no borrowings on these outstanding at December 31, 2018 and 2017.

At December 31, 2018 and 2017, the Company had Federal Reserve Discount Window funds available of approximately $10.0 million. The funds are secured by qualified loans of the Company. The Company had no borrowings on the outstanding line at December 31, 2018 and 2017.

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 terms. An interest only strip can result from a transaction when the market rate of the transaction differs from the stated rate on the portion of the loan sold.

The sold portion of SBA loans that satisfies at least one of the above provisions are considered secured borrowings and are included in other borrowings. Secured borrowings at December 31, 2018 and 2017 were $4.3 million and $5.0 million, respectively.

(Continued)

NOTE 7 - INCOME TAXES

The total provision for income taxes in the statements of income is as follows:

(Dollars in thousands)	2018	2017
Currently payable		
Federal	$ 12,210	$ 15,781
State	2,102	2,506
	14,312	18,287
Deferred income taxes	355	42
Benefit due to tax reform	-	(176)
	$ 14,667	$ 18,153

The Company's provision for income taxes differs from the amounts computed by applying the Federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

(Dollars in thousands)	2018	2017
Federal statutory rate times		
financial statement income	$ 11,775	$ 17,517
Difference resulting from:		
State taxes, net of federal benefit	1,660	1,139
Deferred tax liability writedown	-	(176)
Other items, net	1,232	(327)
Provision for income taxes	$ 14,667	$ 18,153

At December 31, 2018 and 2017, the Company's deferred tax assets and liabilities consisted of the following:

(Dollars in thousands)	2018	2017
Deferred income tax assets (liabilities)		
Allowance for loan losses	$ 1,692	$ 1,764
Nonaccrual loan interest	175	32
Other	(16)	(43)
Unrealized gain on securities available for sale	46	36
Deferred mortgage servicing fees	(1,389)	(873)
Deferred SBA servicing fees	(2,069)	(2,300)
Premises and equipment	(368)	(258)
Deferred loan fees	-	58
Net deferred tax liabilities	$ (1,929)	$ (1,584)

NOTE 7 - INCOME TAXES (Continued)

On December 22, 2017, new federal tax reform legislation was enacted in the United States (the “2017 Tax Act”), resulting in significant changes from previous tax law. The 2017 Tax Act reduces the federal corporate income tax rate to 21% from 35% effective January 1, 2018. The rate change, along with certain immaterial changes in tax basis resulting from the 2017 Tax Act, resulted in a reduction of our net deferred tax liabilities of $176 thousand and a corresponding deferred income tax benefit in 2017. Our federal income tax expense for periods beginning in 2018 is based on the new rate.

The adjustments to deferred tax assets and liabilities and the liability related to the transition tax are amounts estimated based on information available as of December 31, 2017. We recognized any changes to the amounts as we refined our estimates of our cumulative temporary differences, including those related to the immediate deduction for qualified property, and our interpretations of the application of the 2017 Tax Act. The effects of other provisions of the 2017 Tax Act did not have a material impact on our consolidated financial statements.

For the years ended December 31, 2018 and 2017, management believes there are no material amounts of uncertain tax position. Additionally, there were no amounts of interest and penalties recognized in the balance sheet as of December 31, 2018 or 2017 or on the statements of income for the years ended December 31, 2018 or 2017. The Company and its subsidiary are subject to U.S. federal income tax as well as various other state income taxes. The Company is no longer subject to examination by taxing authorities for years before 2015.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Aggregate loan transactions with related parties for the year ended December 31, 2018 were as follows:

(Dollars in thousands)		
Balance, beginning	$	5,970
New loans and principal advances		54
Repayments		(484)
Balance, ending	$	5,540

In addition, the Company held related party deposits of approximately $3.2 million and $3.6 million at December 31, 2018 and 2017, respectively.

The Company signed an agreement to lease space in Norcross, Georgia with an entity in which a Bank Director is a part owner. The lease is a ten year non-cancellable lease which runs until October 2023. During the year ended December 31, 2018, $142 thousand in rents were paid under this lease.

(Continued)

NOTE 9 - SBA AND USDA LOAN SERVICING

The Company sells the guaranteed portion of certain SBA and USDA loans it originates and continues to service the sold portion of the loan. The portion of the loans sold are not included in the financial statements of the Company. As of December 31, 2018 and 2017, the unpaid principal balances of serviced loans totaled $431.2 million and $411.6 million respectively.

Activity for SBA loan servicing rights are as follows:

(Dollars in thousands)	2018	2017
SBA Loan Servicing Rights		
Beginning of year	$ 9,329	$ 8,823
Additions	350	527
Disposals	(1,260)	(21)
End of year, fair value	$ 8,419	$ 9,329

Fair value at year-end 2018 and 2017 was determined using discount rates ranging from 8.78% to 14.56% and 9.51% to 13.42%, prepayment speeds ranging from 6.82% to 12.87% and 6.39% to 8.92%, 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 $27 thousand and $36 thousand at December 31, 2018 and 2017, 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 measuring impairment, risk characteristics including product type and interest rate, were used to stratify the originated loan servicing rights. No valuation allowances are recorded against capitalized servicing rights or interest only strips as of December 31, 2018 and 2017.

NOTE 10 – RESIDENTIAL MORTGAGE LOAN SERVICING

During 2017, the Company began selling and servicing residential mortgage loans. Residential mortgage loans serviced for others are not reported as assets. The outstanding principal of these loans at December 31, 2018 and 2017 was $804.2million and $341.8 million, respectively

Activity for mortgage loan servicing rights are as follows:

(Dollars in thousands)	2018	2017
Residential Mortgage Loan Servicing Rights		
Beginning of year	$ 6,843	$ -
Additions	10,253	7,500
Disposals	-	-
Amortization expense	(2,162)	(657)
End of year, carrying value	$ 14,934	$ 6,843

NOTE 10 – RESIDENTIAL MORTGAGE LOAN SERVICING (Continued)

The fair value of servicing rights was $16.5 million and $7.3 million as of December 31, 2018 and 2017, respectively. Fair value at year-end 2018 was determined using discount rates ranging from 11% to 14%, prepayment speeds 15%, and a weighted average default rate of 0.88%. Fair value at year-end 2017 was determined using discount rate of 14%, prepayment speeds 16%, and a weighted average default rate of 0.83%.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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

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

NOTE 12 – REVENUE RECOGNITION

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The implementation of the new guidance did not have a material impact on the measurement or recognition of revenue. The Company did not record a cumulative effect adjustment to opening retained earnings. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

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

> *Service charges on deposits:* Income from service charges on deposits is within the scope of ASC 606. These include general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue on these types of fees are recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally

NOTE 12 – REVENUE RECOGNITION (Continued)

received at the time the performance obligations are satisfied. Service charges on deposits also include overdraft and NSF fees. Overdraft fees are charged when a depositor has a draw on their account that has inadequate funds. All services charges on deposit accounts represent less than 1% of total revenues in the year ended December 31, 2018.

Gain or loss on sale of OREO: This revenue stream is recorded when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. This revenue stream is within the scope of ASC 606 and is included in other income in noninterest income, but no revenues were generated from gains and losses on the sale and financing of OREO for the year ended December 31, 2018.

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

NOTE 13 – 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 December 31, 2018 and 2017 include:

(Dollars in thousands)	2018	2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 65,283	$ 36,250
Standby letters of credit	$ 4,250	$ 4,249

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 $65.3 million of unused lines of credit and $4.3 million to make loans as of December 31, 2018. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

NOTE 13 – LOAN COMMITMENTS AND RELATED FINANCIAL INSTRUMENTS (Continued)

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 14 - FAIR VALUE

Financial Instruments Measured at Fair Value

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

> Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
>
> Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
>
> Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. As disclosed in Note 1, the Company adopted ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilitie*s, as of January 1, 2018. Due to the adoption of this update, fair value disclosures for 2018 are not comparable with those for 2017.

NOTE 14 - FAIR VALUE (Continued)

The following presents the assets and liabilities as of December 31, 2018 and 2017 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 hierarch, for which a nonrecurring change in fair value has been recorded:

	December 31, 2018				
(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	$ 15,183	$ -	$ -	$ 15,183	
States and political subdivisions	1,213	-	1,213	-	
Mortgage-backed GSE residential	2,492	-	2,492	-	
Total securities available for sale	18,888	-	3,705	15,183	
SBA servicing asset	8,419	-	-	8,419	
Interest only strip	27	-	-	27	
	$ 27,334	$ -	$ 3,705	$ 23,629	
Non-recurring fair value measurements:					
Impaired loans	$ 3,472	$ -	$ -	$ 3,472	$ 169
Total nonrecurring fair value measurements	$ 3,472	$ -	$ -	$ 3,472	$ 169

(Continued)

NOTE 14 - FAIR VALUE (Continued)

	December 31, 2017				
(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	$ 16,661	$ -	$ -	$ 16,661	
States and political subdivisions	1,235	-	1,235	-	
Mortgage-backed GSE residential	3,155	-	3,155	-	
Total securities available for sale	21,051	-	4,390	16,661	
SBA servicing asset	9,329	-	-	9,329	
Interest only strip	36	-	-	36	
	$ 30,416	$ -	$ 4,390	$ 26,026	
Non-recurring fair value measurements:					
Impaired loans	$ 2,966	$ -	$ -	$ 2,966	$ -
Total nonrecurring fair value measurements	$ 2,966	$ -	$ -	$ 2,966	$ -

(Continued)

NOTE 14 - FAIR VALUE (Continued)

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

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

The Company owns certain SBA investments that 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.

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

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

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.

Impaired loans: Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is 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 of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments were $169 thousand for 2018 and $0 for 2017 due primarily to changing conditions of underlying collateral, resulting in a level 3 classification of inputs for determining fair value. Appraised values are reviewed by management using historical knowledge, market considerations, and knowledge of the client and client's business.

(Continued)

NOTE 14 - FAIR VALUE (Continued)

Foreclosed real estate: Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices or appraised values of the collateral and is classified as nonrecurring Level 3. Adjustments are routinely made in the appraisal process by the independent appraisers engaged by the Company to adjust for differences between the comparable sales. Appraised values are reviewed by management using our market knowledge and historical experience.

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 year ended December 31, 2018 and 2017:

(Dollars in thousands)	Obligations of U.S. Government Entities and Agencies	SBA Servicing Asset	Interest Only Strip	Liabilities
Fair value, January 1, 2018	$ 16,661	$ 9,329	$ 36	$ -
Total gain included in income	-	891	(9)	-
Settlements	-	(350)	-	-
Prepayments/paydowns	(1,478)	(1,451)	-	-
Transfers in and/or out of level 3	-	-	-	-
Fair value, December 31, 2018	$ 15,183	$ 8,419	$ 27	$ -
(Dollars in thousands)				
Fair value, January 1, 2017	$ 23,916	$ 8,823	$ 30	$ -
Total gain included in income	-	593	6	-
Settlements	-	(87)	-	-
Prepayments/paydowns	(7,255)	-	-	-
Transfers in and/or out of level 3	-	-	-	-
Fair value, December 31, 2017	$ 16,661	$ 9,329	$ 36	$ -

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 2018 and 2017. The only activity for these securities was prepayments. There were no purchases, sales or transfers into and out of Level 3. The following table presents quantitative information about recurring Level 3 fair value measures at December 31, 2018 and 2017:

	Valuation Technique	Unobservable Input	General Range
December 31, 2018			
Obligations of U.S. Government entities and agencies	Discounted Cash Flows	Discount rate	0%-3%
SBA servicing asset and interest only strip	Discounted Cash Flows	Prepayment speed	6.82%-12.87%
		Discount rate	8.78%-14.56%
December 31, 2017			
Obligations of U.S. Government entities and agencies	Discounted Cash Flows	Discount rate	0%-3%
SBA servicing asset and interest only strip	Discounted Cash Flows	Prepayment speed	6.39%-8.92%
		Discount rate	9.51%-13.42%

Fair Value of Financial Instruments

The methods and assumptions used in the estimation of the fair value of the Company’s financial instruments are detailed below:

NOTE 14 - FAIR VALUE (Continued)

Cash, federal funds sold and purchased, and securities purchased under agreements to resell: The carrying amounts of cash and short-term instruments approximate their fair value due to the relatively short period to maturity of instruments.

Securities available-for-sale: Fair values for securities, excluding restricted equity securities, are based predominately on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of similar instruments.

Federal Home Loan Bank stock: It is not practical to determine the fair value of Federal Home Loan Bank stock due to restrictions places on its transferability.

Loans receivable: For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are placed on carrying values. Prior to 2018, fair values for fixed rate real estate, commercial and other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. In 2018, fair values for fixed rate real estate, commercial and other loans are estimated using exit pricing. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Loans held for sale: The fair value is based on outstanding commitments from investors.

Mortgage servicing assets: On a quarterly basis, mortgage servicing assets are evaluated for impairment based upon the fair value of the servicing rights as compared to the carrying amount. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts, when available , or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes various factors, such as prepayment speed, default rate assumption and other available data that market participants would use in estimating future net servicing income.

Interest only strips: The fair value is based on a valuation model that calculates the present value of estimated future cash flows. The Company records these assets at fair value on a recurring basis.

Deposit liabilities: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Secured borrowings and other borrowings: The carrying amounts of commercial funding agreements and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying values of secured borrowings approximate fair value.

Accrued interest: The carrying amounts of accrued interest approximate their fair values.

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter parties' credit standings.

NOTE 14 - FAIR VALUE (Continued)

The carrying amount and estimated fair values of the Company's financial instruments at December 31, 2018 and 2017 are as follows:

	Carrying	Estimated Fair Value at December 31, 2018			
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash, due from banks, federal funds sold and money market investments	$ 138,427	$ -	$ 138,427	$ -	$ 138,427
Securities purchased under agreements to resell	15,000	-	15,000	-	15,000
Investment securities	18,888	-	3,705	15,183	18,888
FHLB stock	1,163	-	-	-	N/A
Loans, net	1,136,930	-	-	1,166,945	1,166,945
Loans held for sale	56,865	-	56,865	-	56,865
Accrued interest receivable	4,957	-	-	4,957	4,957
SBA servicing assets	8,419	-	-	8,419	8,419
Mortgage servicing assets	14,934	-	-	16,460	16,460
Bank owned life insurance	19,749	-	-	19,749	19,749
Interest only strips	27	-	-	27	27
Financial Liabilities:					
Deposits	1,244,232	-	1,242,863	-	1,242,863
Other borrowings	4,257	-	4,257	-	4,257
Accrued interest payable	1,251	-	1,251	-	1,251

	Carrying	Estimated Fair Value at December 31, 2017			
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash, due from banks, federal funds sold and money market investments	$ 95,833	$ -	$ 95,833	$ -	$ 95,833
Securities purchased under agreements to resell	15,000	-	15,000	-	15,000
Investment securities	21,051	-	4,390	16,661	21,051
FHLB stock	6,092	-	-	-	N/A
Loans, net	1,060,048	-	-	1,058,900	1,058,900
Accrued interest receivable	4,756	-	-	4,756	4,756
SBA servicing asset	8,823	-	-	8,823	8,823
Interest only strips	36	-	-	36	36
Financial Liabilities:					
Deposits	1,019,984	-	1,019,672	-	1,019,672
FHLB Advances	120,000	-	119,817	-	119,817
Other borrowings	5,039	-	5,039	-	5,039
Accrued interest payable	401	-	401	-	401

(Continued)

NOTE 15 - REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2018 was 1.875% and 1.25% for 2017. The net unrealized gain or loss on available for sale securities, if any, is not included in computing regulatory capital. Management believes as of December 31, 2018 the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2018 and 2017, 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.

(Continued)

NOTE 15 - REGULATORY MATTERS (Continued)

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

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
(Dollars in thousands)	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥
As of December 31, 2018:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$166,851	18.16%	N/A*	N/A*	N/A	N/A
Bank	163,339	17.80%	73,392	8.0%	91,740	10.0%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	160,207	17.44%	N/A*	N/A*	N/A	N/A
Bank	156,696	17.08%	55,044	6.0%	73,392	8.0%
Common Tier 1 (CET1)						
Consolidated	160,207	17.44%	N/A*	N/A*	N/A	N/A
Bank	156,696	17.08%	41,283	4.5%	59,631	6.5%
Tier 1 Capital (to Average Assets)						
Consolidated	160,207	11.14%	N/A*	N/A*	N/A	N/A
Bank	156,696	10.91%	57,455	4.0%	71,819	5.0%

* The Board of Governors of the Federal Reserve raised the threshold for determining applicable of the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement in August 2018 from $1 Billion to $3 Billion in consolidated total assets to provide regulatory burden relief, therefore the Company is no longer subject to the minimum capital requirements.

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
(Dollars in thousands)	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$141,159	17.08%	$ 66,136	8.0%	N/A	N/A
Bank	137,606	16.65%	66,105	8.0%	82,631	10.0%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	134,234	16.24%	49,602	6.0%	N/A	N/A
Bank	130,681	15.81%	49,579	6.0%	66,105	8.0%
Common Tier 1 (CET1)						
Consolidated	134,234	16.24%	37,201	4.5%	N/A	N/A
Bank	130,681	15.81%	37,184	4.5%	53,710	6.5%
Tier 1 Capital (to Average Assets)						
Consolidated	134,234	10.76%	33,068	4.0%	N/A	N/A
Bank	130,681	10.47%	49,919	4.0%	62,399	5.0%

(Continued)

NOTE 16 – LIMITATION ON DIVIDENDS

The sole source of funds available to pay stockholder dividends is from the Company’s earnings. Bank regulatory authorities impose restrictions on the amount of dividends that may be declared by the Company. Further restrictions could result from a review by regulatory authorities of the Company’s capital adequacy. For the years ended December 31, 2018 and 2017, $9.3 million and $5.4 million in common dividends were declared and paid, respectively. During 2018 the Bank could without prior approval, declare dividends of approximately $20.7 million.

NOTE 17 – STOCK BASED COMPENSATION

Stock Options

During 2006, the Company adopted an Employee Incentive Stock Plan (the Stock Plan). The Stock Plan offers stock options to key employees to encourage continued employment facilitating their purchase of an equity interest in the Company. These options are granted at the discretion of the Board of Directors at an exercise price determined by the Board at the grant date. A total of 900,000 (as ratified in the 2006 annual stockholders meeting) shares have been reserved under the Stock Plan. The Board of Directors terminated this Stock Plan as of July 17, 2016. At December 31, 2018 and 2017, 500,000 shares had been issued under this Stock Plan. There are no remaining exercisable options at December 31, 2018 and 2017. Additionally, there are no shares available for future stock option grants to employees under the existing plan.

During 2018, the Company adopted the MetroCity Bankshares, Inc. 2018 Stock Option Plan (the 2018 Stock Option Plan). The 2018 Stock Option Plan provides incentives to certain officers, employees, and directors to manage the business of the Company and its affiliates in a manner that will provide for the long-term growth and profitability of the Company, to encourage stock ownership and provide such recipients with a proprietary interest in the Company, and to provide a further means of hiring, rewarding and retaining key personnel. The 2018 Stock Option Plan permits the issuance of incentive and nonqualified stock options to purchase shares of the Company’s common stock (“Stock Options”) to eligible officers, employees and directors of the Company and its affiliates, except that incentive stock options may only be granted to employees. The Board of Directors has reserved 1,200,000 shares of Company common stock for issuance pursuant to awards under the 2018 Stock Option Plan, any or all of which may be granted as incentive stock options. In the event all or a portion of a Stock Option award is forfeited, cancelled, expired, or terminated before becoming vested, paid, exercised, converted, or otherwise settled in full, that number of reserved shares again becomes available under the 2018 Stock Option Plan and does not count against the maximum number of reserved shares. In addition, shares of common stock deducted or withheld to satisfy tax withholding obligations in connection with the exercise of a Stock Option do not reduce the number of reserved shares. The 2018 Stock Option Plan provides for its administration by a committee consisting of all or some of the members of our Board of Directors (the “Committee”). The determination of award recipients under the 2018 Stock Option Plan, and the terms of those Stock Option awards, will be made by the Committee. At December 31, 2018, 120,000 shares had been issued under the 2018 Stock Option Plan.

(Continued)

NOTE 17 – STOCK BASED COMPENSATION (Continued)

The fair value of stock options issued during 2018 was determined at their grant date using a valuation model that included expected volatility of 21.3%, an expected term of 6.5 years, a 3.0% dividend yield, and risk free rate of 2.9%. The weighted average fair value of each option granted during 2018 was $11.90.

A summary of activity in the stock plan for the years ended December 31, 2018 and 2017 is presented below:

	2018		2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	-	$ -	130,000	$ 5.27
Granted	120,000	25.40	-	-
Exercised	-	-	(130,000)	5.27
Forfeited	-	-	-	-
Outstanding at end of year	120,000	$ 25.40	-	$ -

As of December 31, 2018 and 2017, there was $1.2 million and $0 of total unrecognized compensation cost related to options granted under the Plan. As of December 31, 2018, the cost is expected to be recognized over a weighted-average period of 2.5 years.

Aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the year ended December 31, 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all option holders exercised their options on December 31, 2018. The aggregate intrinsic value of options outstanding as of December 31, 2018 was $912 thousand.

The intrinsic value of the options exercised during 2017 was $708 thousand.

Restricted Stock

Periodically the Company will issue restricted stock to its directors, executive officers, senior officers, and other employees. Compensation expense is recognized over the vesting period of the awards based upon the fair value of the stock at issue date. The fair value of each restricted stock award is estimated on the date of the grant using a valuation model that includes expected volatility, an expected term, dividend yield and a risk-free rate. Shares of restricted stock issued fully vest on the third anniversary of the grant date.

	2018		2017	
Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1	140,155	$ 8.77	125,714	$ 6.20
Granted	90,536	19.70	101,627	10.72
Vested	(91,590)	11.44	(87,186)	7.34
Forefited	-	-	-	-
Nonvested at December 31	139,101	$ 14.13	140,155	$ 8.77

NOTE 17 – STOCK BASED COMPENSATION (Continued)

As of December 31, 2018, there was $1.5 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1 year. The fair value of shares vested during the years ended December 31, 2018, and 2017 was $1.1 million and $440 thousand, respectively.

NOTE 18 - OTHER OPERATING EXPENSE

Significant components of other operating expenses for the periods ended December 31, 2018 and 2017 are as follows:

(Dollars in thousands)	2018	2017
Professional fees	$ 1,029	$ 1,020
Miscellaneous loan related	3,503	3,079
Bank security	1,003	884
Phone and data service	617	498
Director fees	333	291
Other	2,585	2,658
Total other operating expenses	$ 9,070	$ 8,430

NOTE 19 - CONDENSED FINANCIAL INFORMATION ON METROCITY BANKSHARES, INC (PARENT COMPANY ONLY)

Condensed Balance Sheets

(Dollars in thousands)	2018	2017
Assets:		
Cash and due from banks*	$ 375	$ 378
Interest-bearing deposits in other financial institutions	2,225	3,080
Investment in common stock of subsidiary stated on the basis of the Company's equity in subsidiary's capital accounts*	165,096	131,562
Other assets	1,305	381
Total assets	$ 169,001	$ 135,401
Liabilities -		
Accrued expenses and other liabilities	$ 393	$ 286
Stockholders' equity	168,608	135,115
Total liabilities and stockholders' equity	$ 169,001	$ 135,401

* Eliminated in consolidation.

Condensed Statements of Income and Comprehensive Income

(Dollars in thousands)	2018	2017
Dividends received from subsidiary*	$ 9,291	$ 5,438
Interest income*	24	25
	9,315	5,463
Other expense	96	35
Income before taxes and equity in undistributed income of subsidiary	9,219	5,428
Income tax benefit	29	24
Income before equity in undistributed income of subsidiary	9,248	5,452
Equity in undistributed income of subsidiary*	32,086	26,445
Net income	41,334	31,897
Other comprehensive loss:	(49)	(7)
Comprehensive income	$ 41,285	$ 31,890

(Continued)

NOTE 19 - CONDENSED FINANCIAL INFORMATION ON METROCITY BANKSHARES, INC (PARENT COMPANY ONLY)

Condensed Statements of Cash Flows

(Dollars in thousands)	2018	2017
Cash flow from operating activities:		
Net income	$ 41,334	$ 31,897
Adjustments to reconcile net income to net cash from operations:		
Increase in other assets	(924)	(135)
(Increase) decrease in accrued expenses and other liabilities	42	(68)
Income from subsidiary	(32,086)	(26,445)
Net cash flow provided by operating activites	8,366	5,249
Cash flow from financing activities:		
Dividends paid - common stock	(9,224)	(5,401)
Exercise of stock options	-	685
Net cash flow provided by financing activites	(9,224)	(4,716)
Net (decrease) increase in cash and cash equivalents	(858)	533
Cash and cash equivalents at beginning of year	3,458	2,925
Cash and cash equivalents at end of year	$ 2,600	$ 3,458

NOTE 20 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

(Dollars in thousands except share data)	2018	2017
Basic		
Net Income	$ 41,334	$ 31,897
Weighted average common shares outstanding	12,092,395	11,929,348
Less: Common stock equivalents	-	-
Average shares	12,092,395	11,929,348
Basic earnings per common share	$ 3.42	$ 2.67
Diluted		
Net Income	41,334	31,897
Weighted average common shares outstanding for basic earnings per common share	12,092,395	11,929,348
Add: Dilutive effects of restricted stock and options	145,454	140,155
Average shares and dilutive potential common shares	12,237,849	12,069,503
Diluted earnings per common share	$ 3.38	$ 2.64

There were no options or restricted stock excluded from the computation of diluted earnings per common share because they were antidilutive for 2018 and 2017.