HELM BANK USA

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

HELM BANK USA

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Independent Auditor's Report

Board of Directors
of Helm Bank USA

We have audited the accompanying financial statements of Helm Bank USA (the "Bank"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helm Bank USA as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, as a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income and the Bank's overall operations. There may be other matters that can occur related to the COVID-19 coronavirus that could have a financial impact on the Bank's financial results that are unknown at this time. Our opinion is not modified with respect to this matter.

Morrison, Brown, Argiz & Farra

Miami, Florida
June 15, 2020

HELM BANK USA

BALANCE SHEETS
DECEMBER 31,
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	2019	2018
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 13,677	$ 9,232
Interest-bearing cash deposits	48,585	14,117
Fed funds sold - overnight	15,117	-
TOTAL CASH AND CASH EQUIVALENTS	77,379	23,349
Securities available for sale	229,148	222,595
Marketable equity securities	1,003	974
Federal Home Loan Bank stock, at cost (restricted)	1,260	2,190
Loans, net	524,125	516,061
Foreclosed asset	-	363
Deferred tax asset, net	3,395	5,981
Property and equipment, net	180	536
Other assets	6,030	5,162
TOTAL ASSETS	**$ 842,520**	**$ 777,211**

LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Demand deposits	$ 334,939	$ 304,289
Savings, NOW and money-market deposits	190,768	200,989
Time deposits	193,874	133,804
TOTAL DEPOSITS	719,581	639,082
Federal Home Loan Bank advances	13,200	35,000
Advance payments by borrowers for taxes and insurance	3,738	5,085
Accrued interest payable and other liabilities	6,862	6,692
TOTAL LIABILITIES	743,381	685,859
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
STOCKHOLDERS' EQUITY:		
Common stock, $10 par value, 1,000,000 shares authorized; 900,000 shares issued and outstanding	9,000	9,000
Additional paid-in capital	8,800	8,800
Retained earnings	80,793	80,368
Accumulated other comprehensive income (loss), net of tax effect	546	(6,816)
TOTAL STOCKHOLDERS' EQUITY	99,139	91,352
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 842,520**	**$ 777,211**

The accompanying notes are an integral part of these financial statements.

HELM BANK USA

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(IN THOUSANDS)

	2019	2018
INTEREST INCOME:		
Loans, including fees	$ 27,521	$ 25,789
Securities available for sale	5,457	5,060
Other	1,448	691
TOTAL INTEREST INCOME	34,426	31,540
INTEREST EXPENSE:		
Deposits	3,823	1,847
Other	584	540
TOTAL INTEREST EXPENSE	4,407	2,387
NET INTEREST INCOME	30,019	29,153
PROVISION FOR LOAN LOSSES	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,019	29,153
NONINTEREST INCOME:		
Fee income on wire transfers	1,673	1,850
Service fees on customer deposit accounts	1,314	1,526
Net realized gain on sales of debt securities available for sales (includes $523 and $31 accumulated other comprehensive income reclassifications for unrealized net gains on debt securities available for sale, respectively)	523	31
Foreign currency transaction gain	505	455
Card income	435	475
Foreclosed assets, net	190	(25)
Net unrealized gain on marketable equity securities	29	-
Other	339	427
TOTAL NONINTEREST INCOME	5,008	4,739
NONINTEREST EXPENSES:		
Salaries and employee benefits	13,329	13,883
Representative offices	2,387	2,968
Data processing	1,356	1,454
Data processing - system conversion costs	1,992	-
Occupancy	1,461	1,392
Consulting fees	903	883
Professional fees	818	806
Information technology support	631	637
Software licenses	494	412
Depreciation and amortization	461	617
Other	2,375	2,484
TOTAL NONINTEREST EXPENSES	26,207	25,536
INCOME BEFORE PROVISION FOR INCOME TAXES	8,820	8,356
PROVISION FOR INCOME TAXES (includes $129 and $8 income tax expense from reclassification items, respectively)	2,376	1,713
NET INCOME	**$ 6,444**	**$ 6,643**

The accompanying notes are an integral part of these financial statements.

HELM BANK USA

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

2019				
NET INCOME			$	6,444
OTHER COMPREHENSIVE INCOME, NET OF TAX EFFECT				
Unrealized gains on securities				
Unrealized holding gains arising during period (net of tax effect of $2,523)	$	7,737		
Less: reclassification adjustment for gains included in net income (net of tax effect of $129)		(394)		7,343
COMPREHENSIVE INCOME			**$**	**13,787**
2018				
NET INCOME			$	6,643
OTHER COMPREHENSIVE LOSS, NET OF TAX EFFECT				
Unrealized losses on securities				
Unrealized holding losses arising during period (net of tax effect of $987)	$	(3,015)		
Less: reclassification adjustment for gains included in net income (net of tax effect of $8)		(23)		(3,038)
COMPREHENSIVE INCOME			**$**	**3,605**

The accompanying notes are an integral part of these financial statements.

HELM BANK USA

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax effect	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2018	$ 9,000	$ 8,800	$ 79,055	$ (3,108)	$ 93,747
Net income	-	-	6,643	-	6,643
Dividends	-	-	(6,000)	-	(6,000)
Reclassification of certain tax effects (NOTE 2)	-	-	670	(670)	-
Other comprehensive loss	-	-	-	(3,038)	(3,038)
BALANCES AT DECEMBER 31, 2018	9,000	8,800	80,368	(6,816)	91,352
Impact of adoption of accounting standard related to marketable equity securities	-	-	(19)	19	-
Net income	-	-	6,444	-	6,444
Dividends	-	-	(6,000)	-	(6,000)
Other comprehensive loss	-	-	-	7,343	7,343
BALANCES AT DECEMBER 31, 2019	**$ 9,000**	**$ 8,800**	**$ 80,793**	**$ 546**	**$ 99,139**

The accompanying notes are an integral part of these financial statements.

HELM BANK USA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(IN THOUSANDS)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,444	$ 6,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of debt securities	1,623	6,209
Net accretion of deferred loan fees	(8)	(90)
Net amortization of loan premiums	388	217
Depreciation and amortization of property and equipment	461	617
Net gain on sales of foreclosed assets	(224)	(12)
Net realized gain on sales of debt securities	(523)	(31)
Net unrealized gain on marketable equity securities	(29)	-
Deferred income tax provision	192	(102)
Net change in operating assets and liabilities:		
Other assets	(868)	(281)
Other liabilities	170	598
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,626	13,768
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in debt securities available for sale:		
Sales	83,069	17,561
Maturities, prepayments and calls	32,502	33,136
Purchases	(113,487)	(45,236)
Net change in Federal Home Loan Bank stock (restricted)	930	(95)
Loan principal originations, net	(8,718)	(20,322)
Proceeds from sales of foreclosed assets	861	136
Additions to property and equipment	(105)	(132)
NET CASH USED IN INVESTING ACTIVITIES	(4,948)	(14,952)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	80,499	(4,883)
(Repayments of) proceeds from Federal Home Loan Bank advances	(21,800)	1,700
Net change in advance payments by borrowers for taxes and insurance	(1,347)	773
Payments of dividends	(6,000)	(6,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	51,352	(8,410)
NET CHANGE IN CASH AND CASH EQUIVALENTS	54,030	(9,594)
CASH AND CASH EQUIVALENTS, beginning of year	23,349	32,943
CASH AND CASH EQUIVALENTS, end of year	**$ 77,379**	**$ 23,349**

	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Transfer of loans to foreclosed assets	**$ 274**	**$ 363**
Interest paid on deposits and borrowed funds	**$ 3,242**	**$ 1,792**
Cash paid for income taxes	**$ 2,525**	**$ 1,905**

The accompanying notes are an integral part of these financial statements.

1. GENERAL

Nature of Operations

Helm Bank USA (the "Bank") is a State of Florida chartered commercial banking financial institution. The Bank provides a variety of financial products and services in Miami, Florida and through its representative offices in Colombia and Venezuela. The Bank is authorized by federal regulators and the State of Florida to conduct general banking business. It is a member of the Federal Deposit Insurance Corporation ("FDIC") and is supervised and regulated by the Office of Financial Regulation of the State of Florida ("OFR") and by the FDIC.

In 2018, the Bank adopted a plan to close its representative offices in Venezuela due to the political and socioeconomic conditions in that country. Pursuant to the plan, the representative offices in Venezuela were scheduled to close during the quarter ending June 30, 2019. On June 25, 2019, the Board and Management reconsidered their decision, concluding that to maintain the representative office in Caracas, Venezuela would aid the Bank to continue servicing its Venezuelan customer base and allow for a smoother, more efficient process to obtain updates and adhere to regulatory compliance requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accounting policies and reporting practices of the Bank conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and to predominant practices in the banking industry.

Use of Estimates

In preparing the financial statements in conformity with U.S. GAAP, management is required 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 balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of foreclosed assets, valuation of deferred tax assets, and the fair value of financial instruments.

Risks and Uncertainties

In March 2020, infections of the novel coronavirus ("COVID 19") had become a global pandemic. With the possibility of widespread infection in the United States and abroad, national, state and local authorities have recommended social distancing and imposed or are considering quarantine and isolation measures on large portions of the population, including mandatory business closures. The Bank has been classified as an essential business and has been allowed to remain open, however, there is no assurance that this classification will not change in the future and the Bank may also be forced to close branches or other offices. The Bank has mitigated such potential closures by enabling its employees to work from home.

If the U.S. economy weakens (as is possible due to changing conditions being caused by COVID-19), our growth and profitability from our lending, deposit and investment operations could be adversely affected. Uncertainty about the federal fiscal policy making process, the medium- and long-term fiscal outlook of the federal government and future tax rates are concerns for U.S. businesses, consumers and investors. Additionally, there has been a significant increase in the volatility in the valuation of the equity, fixed-income and commodity markets. Such market instability may hinder future U.S. economic growth, which could adversely affect the Bank's results of operations, financial position, liquidity or capital. Given the uncertain conditions under which the Bank currently operates, it is not possible for the Bank to predict the duration or magnitude of the outbreak's adverse results at this time, and the ultimate impact of the pandemic on the Bank's results of operations, financial position, liquidity or capital cannot be reasonably estimated at this time. The length of the pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown.

(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties (continued)

The potential for the spread of the virus may result in the closure of businesses of the Bank's customers by the health or other government authorities, which could significantly disrupt the Bank's operations and the operations of the Bank's customers. Therefore, the Bank might experience client defaults that may significantly impact the Bank's allowance for loan loss estimate. Therefore, the FDIC, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the National Credit Union Administration, the state banking regulators, and the Consumer Financial Protection Bureau issued the Interagency Statement on Loan Modifications and Reporting by Financial Institutions working with Customers Affected by the Coronavirus to encourage financial institutions to work constructively with borrowers impacted by COVID-19 and provide additional information regarding loan modifications. As the statements currently read, if the loan was performing as of the national emergency declaration date declared by the President (March 13, 2020) for which payments get deferred, the loan will not be treated as non-performing loans or considered Trouble Debt Restructuring's ("TDR") and the accrual of interest remains the same. Additionally, the Small Business Administration Loans ("SBA Loans") offered by banks as a part of the government's assistance packages are fully guaranteed by the US government, and as such will result in no risk to the Bank.

Concentrations of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty.

The Bank's loan portfolio is significantly concentrated in residential real estate loans. The Bank controls credit risk through credit approvals, credit limits, and monitoring procedures. The Bank performs ongoing credit evaluations of its customers' financial condition. During 2019 and 2018, approximately 94% of the Bank's loan portfolio was collateralized by residential real estate; of which approximately 86% and 87%, respectively, is collateralized by condominiums and planned unit developments. Loans collateralized by real estate are located primarily in South Florida. Circumstances that negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

Loans outstanding to customers whose principal residence is outside the U.S. at December 31, 2019 and 2018 were $443,360 and $454,252, respectively. The following is a summary of the loan portfolio by country of customer residence at December 31:

	2019	2018
Brazil	38%	39%
United States	16	13
Colombia	13	12
Venezuela	7	9
Other	26	27
	100%	**100%**

Deposits outstanding from customers whose principal residence is outside the U.S. at December 31, 2019 and 2018 were $588,745 and $524,878, respectively. The following is a summary of total deposits by country of customer residence at December 31:

	2019	2018
Colombia	29%	29%
United States	18	18
Ecuador	17	16
Panama	11	11
Venezuela	8	11
Other	17	15
	100%	**100%**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk (continued)

In the ordinary course of business, the Bank maintains deposits with other qualified financial institutions. The exposure to the Bank from these transactions is dependent upon the balances it keeps and the financial strength of the respective depository institution.

Foreign Operations

The Bank's operations in various geographic regions expose the Bank to risks inherent in doing business in each of the countries in which the Bank transacts business. Operations in countries other than the United States are subject to various risks particular to each country. With respect to any particular country, these risks may include:

- Expropriation and nationalization of the Bank's assets or the Bank's customers in that country;
- Political and economic instability;
- Civil unrest, acts of terrorism, force majeure, war or other armed conflict;
- Natural disasters including those related to earthquakes, hurricanes, tsunamis and flooding;
- Inflation;
- Currency fluctuations, devaluations, conversion and expropriation restrictions;
- Confiscatory taxation or other adverse tax policies;
- Governmental activities that limit or disrupt markets, payments, or limit the movement of funds;
- Governmental activities that may result in the deprivation of contract rights; and
- Trade restrictions and economic embargoes imposed by the United States and other countries.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents includes cash and due from banks, interest-bearing cash deposits in banks, and federal funds sold with original maturity dates of ninety days or less.

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2019 and 2018, these reserve balances amount to $20,354 and $24,837, respectively.

Debt Securities

The Bank determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Bank has the positive intent and ability to hold the securities to maturity. Debt securities for which the Bank does not have the intent or ability to hold to maturity are classified as available for sale. Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax effect, included in the determination of comprehensive income and reported in stockholders' equity. At December 31, 2019 and 2018, all of the Bank's debt securities were classified as available for sale.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the interest method. Gains and losses on sales of securities are determined using the specific identification method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Securities (continued)

The Bank recognizes other-than-temporary impairments for debt securities classified as available for sale in accordance with U.S. GAAP. Accordingly, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized costs bases, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the statements of income, but is recognized in other comprehensive income (loss).

Marketable Equity Securities

Marketable equity securities are carried at fair value with unrealized gains and losses included in earnings.

Federal Home Loan Bank Stock, at cost (restricted)

The Bank, as a member of the Federal Home Loan Bank ("FHLB") (Atlanta) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. At December 31, 2019 and 2018, the Bank owned 12,600 and 21,900 shares, respectively, with a carrying value of $1,260 and $2,190, respectively.

Loans, net

Loans are reported at their recorded investment, which is the outstanding principal balance plus accrued interest and net of any unearned income, such as deferred fees or costs, charge-offs, unamortized premiums or discounts on originated loans, and the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated on principal amounts outstanding. Certain loan origination fees and costs are deferred and the net amount is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience, quantitative and other mathematical techniques over the loss emergence period. For each class of loan, management exercises significant judgment to determine the estimated method that fits the credit risk characteristics of its portfolio segment. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: residential real estate, commercial real estate, commercial and industrial, and consumer loans. The Bank also sub-segments these segments into classes based on the associated risks within those segments. Residential real estate loans are divided into the following four classes: revolving 1-4 family, single family residences, condominiums and planned unit developments. Commercial real estate loans are divided into the following four classes: construction and development, multifamily residential, non-residential owner occupied, and non-residential investor owned. Commercial and industrial loans are divided into the following three classes: trucks and trailers, secured by standby letters of credit, and certificate of deposit ("CD") secured. Consumer loans are divided into the following two classes: credit cards and other consumer. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

The following is how management determines the balance of the allowance account. The loans are pooled by class and a historical loss percentage is applied to each class. Based on credit risk assessment and management's analysis of leading predictors of losses, additional loss multipliers are applied to loan balances to adjust the historical loss percentage for environmental factors. Prior to June 2019, historical loan losses were calculated by utilizing a three-year weight average methodology to which a weight of 50% was applied to the most recent year, as well as a weight of 30% and 20% was assigned to each previous year, respectively. Commencing in June 2019, to align with regulatory requirements, management changed its methodology from the prior period and started utilizing a five-year weighted average methodology to calculate historical loan losses with an equal weighting applied to each period. The quantitative effect of the change in methodology from the prior period did not have a significant impact to the current period provision.

Reflected in the portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of the Bank's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Bank's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $10,262 and $10,273 adequate to cover loan losses inherent in the loan portfolio at December 31, 2019 and 2018, respectively.

Regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the recognition of additions and/or decreases to the allowance for loan losses based on their judgment of information available at the time of their examination.

Consumer loans are generally fully or partially charged down to the fair value of the collateral securing the asset when:

- The loan is in excess of 120 days past due, unless collateral covering the loan has been repossessed;
- 90 days have lapsed since repossession of collateral;
- Management judges the asset to be uncollectible;
- Repayment is deemed to be protracted beyond reasonable time; or
- If after liquidation of the collateral, payment of any resulting deficiency by borrower or guarantor is highly improbable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

For real estate, and commercial and industrial loans the Bank's charge-off policies are as follows. A loan is charged-off when:

- The loan is classified as a loss by the Bank, and is considered uncollectible or of such little value that the continuance of the loan as an active asset is no longer warranted;
- The loan is classified as a loss by the regulatory authorities; or
- The loan is impaired and there is a known anticipated loss, the amount of the loss is charged-off.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as it does for impaired loans.

The Bank offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification - A modification in which the interest rate is changed.

Term Modification - A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Combination Modification – Any other type of modification, including the use of multiple categories above.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment.

The Bank's grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performances.

The Bank's internally assigned grades are as follows:

Pass - No change in credit rating of borrower and loan-to-value ratio of asset.

Especially Mentioned - Loans to borrowers displaying a preponderance of declining trends. While the situation has not deteriorated to work-out status, its present condition is unsatisfactory. Existing loans will be included in this group if, based on actual experience and other events, it is unlikely that they would be granted on similar terms.

Substandard - Work-out and/or non-performing loans with no principal loss anticipated.

Doubtful - Work-out and/or non-performing loans with weaknesses that make collection or liquidation in full highly questionable and improbable.

Loss - Loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on a present value of expected future cash flows, discounted at the loan's effective interest rate, except when the source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged-off and no restructuring has occurred or the loans reach ninety days past due.

When management places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, management returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the statements of income. At December 31, 2019 and 2018, the provision for unfunded lending commitments amounted to $65, and is included in other liabilities on the accompanying balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Property and Equipment, net

Property and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. The estimated useful lives of these assets are as follow:

Leasehold improvements	Shorter of life or term of lease
Furniture, fixtures and equipment	3 - 7 years

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the results of operations for the respective period.

Impairment of Long-Lived Assets

The Bank’s long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Bank did not recognize an impairment charge during the years ended December 31, 2019 and 2018.

Interest Income

Interest income is recognized as earned, based upon the principal amount outstanding, on an accrual basis.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, advertising costs amounted to $228 and $185, respectively, and are included in other noninterest expenses on the accompanying statements of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Bank recognizes positions taken or expected to be taken in a tax return in accordance with existing accounting guidance on income taxes which prescribes a recognition threshold and measurement process. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively.

Foreign Currency Adjustments

The Bank's functional currency for all operations worldwide is the U.S. dollar. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Interest Rate Risk

The Bank's performance is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its interest expense on interest-bearing liabilities. The Bank, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities (the interest rate sensitivity gap). More liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Bank has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income resulting from changes in market interest rates.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on securities.

In February 2018, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to allow a reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the enactment of the 2017 Tax Cuts and Jobs Act. The update is effective for annual periods beginning after December 31, 2018 and interim periods within those years. As permitted by the FASB, the Bank elected to early adopt this accounting standard update and apply it to the financial statements for the year ending December 31, 2018. As a result, the Bank reclassified approximately $670 from accumulated other comprehensive loss to retained earnings so that the tax effects of items within accumulated other comprehensive loss reflect the appropriate tax.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Bank has evaluated subsequent events through June 15, 2020, which is the date the financial statements were available to be issued. As a result of the COVID-19 outbreak, economic uncertainties have arisen which are likely to negatively impact net interest income and the Bank's overall operations. Other financial impact could occur though it is unknown at this time.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standard update ("ASU") which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The Bank applies the following steps outlined in the ASU: (1) identify the contract(s) with the customer, (2) identify the performance obligation(s) in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to the performance obligations; (5) recognize revenue when, or as, the entity satisfies a performance obligation. On January 1, 2019, the Bank adopted the new standard using the modified retrospective transition method.

All of the Bank's interest income and certain noninterest income were not impacted by the adoption of this ASU, because the revenue from those contracts with customers is covered by other guidance in U.S. GAAP. The Bank's largest sources of noninterest revenue subject to the guidance include service charges on deposit accounts, card income, and gains on the sale of foreclosed assets. Adoption of this ASU did not change the timing or pattern of the Bank's revenue recognition related to scoped-in noninterest income. New disclosures required by the ASU have been included in NOTE 12.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of financial Assets and Financial Liabilities*. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Bank should evaluate the need for a valuation allowance on the deferred tax asset related to available for sale debt securities in combination with the Bank's other deferred tax assets. The Bank implemented the update by means of a cumulative effect adjustment to the balance sheet as of January 1, 2019. The adoption of this guidance resulted in the following changes:

- Marketable equity securities previously included in available-for-sale securities on the balance sheet are presented as a separate asset.
- Changes in the fair value of the marketable equity securities are captured in the statement of income.
- Retained earnings was reduced and the corresponding increase in accumulated other comprehensive loss was recognized (no net change in stockholders' equity) of $19,000 at January 1, 2019 for the after-tax impact of the change in accounting for the unrealized loss of the marketable equity securities.
- Adoption of the ASU 2016-01 also resulted in the use of exit price to determine the fair value in the balance sheet. Further information regarding valuation of financial instruments is provided in Note 17.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncements (continued)

Technical Corrections and Improvements to Financial Instruments

In March 2018, the FASB issued an ASU which clarifies certain aspects of certain not-yet-effective guidance on the recognition and measurement of financial assets and financial liabilities. The update is effective for fiscal years beginning after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019 with early adoption permitted for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank adopted the update on January 1, 2019 with no material effects on its financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an ASU to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Bank adopted the update on January 1, 2019 with no material effects on its financial statements.

Accounting Guidance for Implementation Costs in a Cloud Computing Arrangement

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)* with the objective of helping entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The update is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

During 2019, as permitted by the FASB, the Bank elected to early adopt this ASU. Adoption of this ASU required that the Bank capitalize implementation costs incurred during 2019 for a hosting arrangement that remained in the development stage as of December 31, 2019.

Recently Issued Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued an ASU which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections. The Bank is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the Bank's financial condition due to the recognition of a right-of-use asset and related lease liability. The Bank does not anticipate the update having a material effect on the Bank's results of operations or cash flows, though such an effect is possible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

Lease Accounting (continued)

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Bank's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The Bank is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022, with early application permitted.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an ASU which will replace the current incurred loss impairment methodology in U.S. GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. Also, the FASB has issued amendments to the update with transition relief intended to improve comparability of financial statement information for some entities, to decrease costs for some financial statement preparers, and to clarify some disclosures. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018 including interim periods in those fiscal years. As of the date the financial statements were available to be issued, the FASB has proposed to defer the implementation of this update for another year. The Bank is currently evaluating the effect the update will have on its financial statements.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued an ASU which shortens the amortization period for certain callable debt securities that are held at a premium by requiring such callable debt securities to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. The update is to be applied on a modified retrospective basis as of the beginning of the period of adoption and is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Bank is currently evaluating the effect the update will have on its financial statements.

Fair Value Measurement

In August 2018, the FASB issued an ASU that removes certain disclosures related to transfers between hierarchy levels and adds certain disclosures related to level 3 investments. The update also changes certain disclosure requirements. The update is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early application is permitted. The Bank is currently evaluating the potential accounting and disclosure effects the update will have on its financial statements.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued an ASU designed to reduce the complexity in accounting for income taxes by removing certain exceptions and changing or clarifying certain recognition and other requirements. The update is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early application permitted. The Bank is currently evaluating the effect the update will have on its financial statements.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

(IN THOUSANDS)

3. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to employees. Annual activity consisted of the following:

	2019	2018
Beginning balance	$ 279	$ 513
Repayments	(80)	(53)
Transfers out	-	(181)
Ending balance	**$ 199**	**$ 279**

During 2018, $181 was reclassified to the general loan portfolio following a former employee's separation from the Bank.

Deposits from related parties held by the Bank at December 31, 2019 and 2018 were $42,716 and $35,066, respectively.

	For Year Ended December 31,	
	2019	2018
Interest earned on employee loans	$ 7	$ 13
Interest paid on related party deposits	$ 185	$ 38

The interest rates on related party transactions were as follows during the years ended December 31:

	2019	2018
Loans	4.375 - 5.50%	4.00 - 5.875%
Deposits	0.00 - 2.50%	0.00 - 2.05%

The Bank has a service agreement with an entity related by virtue of common ownership to purchase various support services, which renews annually. During the years ended December 31, 2019 and 2018, the Bank incurred fees under this service agreement of $360, which are included in consulting fees on the accompanying statements of income.

The Bank subleases office space from a related party for its disaster recovery center. During the years ended December 31, 2019 and 2018, the Bank incurred fees under this sublease agreement of $13.

The Bank leases office space to a related party (NOTE 15).

Directors' fees amounted to $90 and $53 for the years ended December 31, 2019, and 2018, respectively.

(IN THOUSANDS)

4. SECURITIES

The amortized cost and fair value of debt securities, with gross unrealized gains and losses, follows at:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Debt securities:				
U.S. Government and federal agency	$ -	$ -	$ -	$ -
U.S. Government-sponsored enterprises (GSEs)	44,323	53	(117)	44,259
Municipal bonds	61,390	1,650	(73)	62,967
GSE residential mortgage-backed	119,209	317	(1,116)	118,410
Corporate bonds	3,508	8	(4)	3,512
Total securities available for sale	**$ 228,430**	**$ 2,028**	**$ (1,310)**	**$ 229,148**

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Debt securities:				
U.S. Government and federal agency	$ 3,036	$ -	$ (65)	$ 2,971
U.S. Government-sponsored enterprises (GSEs)	32,870	-	(2,596)	30,274
Municipal bonds	60,699	121	(1,744)	59,076
GSE residential mortgage-backed	129,439	148	(4,581)	125,006
Corporate bonds	5,570	-	(302)	5,268
Total securities available for sale	**$ 231,614**	**$ 269**	**$ (9,288)**	**$ 222,595**

The amortized cost and fair value of available for sale debt securities by contractual maturity follows at:

	December 31, 2019	
	Amortized Cost	Fair Value
Securities Available for Sale		
Within 1 year	$ 178	$ 178
After 1 year through 5 years	15,180	15,157
After 5 years through 10 years	60,810	60,860
Over 10 years	152,262	152,953
Total securities available for sale	**$ 228,430**	**$ 229,148**

(IN THOUSANDS)

4. SECURITIES (CONTINUED)

For the years ended December 31, 2019 and 2018, proceeds from sales of securities available for sale amounted to $83,069 and $17,561, respectively; gross realized gains were $895 and $127, respectively; gross realized losses were $372 and $96 for 2019 and 2018, respectively.

The following table shows the gross unrealized losses and fair value of the Bank's securities available for sale with unrealized losses that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018.

	Less than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2019						
U.S. Government and federal agency	$ -	$ -	$ -	$ -	$ -	$ -
GSEs	22,258	(61)	11,944	(56)	34,202	(117)
Municipal bonds	5,890	(66)	746	(7)	6,636	(73)
GSE residential mortgage-backed	61,977	(695)	15,840	(421)	77,817	(1,116)
Corporate bonds	-	-	1,993	(4)	1,993	(4)
Total securities available for sale	**$ 90,125**	**$ (822)**	**$ 30,523**	**$ (488)**	**$ 120,648**	**$ (1,310)**

	Less than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018						
U.S. Government and federal agency	$ -	$ -	$ 2,972	$ (65)	$ 2,972	$ (65)
GSEs	-	-	30,274	(2,596)	30,274	(2,596)
Municipal bonds	10,145	(40)	36,836	(1,704)	46,981	(1,744)
GSE residential mortgage-backed	23,181	(504)	89,354	(4,077)	112,535	(4,581)
Corporate bonds	-	-	5,268	(302)	5,268	(302)
Total securities available for sale	**$ 33,326**	**$ (544)**	**$ 164,704**	**$ (8,744)**	**$ 198,030**	**$ (9,288)**

GSE debt securities. The unrealized losses on the fourteen investments in GSEs was caused by interest rate increases. The contractual terms of these investments does not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

Municipal bonds. The unrealized losses on the thirteen investments in municipal bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

GSE residential mortgage-backed securities. The unrealized losses on the Bank's investment in thirty-six GSE residential mortgage-backed securities were caused by interest rate increases. The Bank purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

(IN THOUSANDS)

4. SECURITIES (CONTINUED)

Corporate bonds. The Bank's unrealized loss on one investment in a corporate bond relates to an investment in a company in the financial services sector. The unrealized loss is primarily caused by recent decreases in profitability and profit forecasts by industry analysts. The contractual terms of this investment does not permit the debtor to settle the security at a price less than the par value of the investment. The Bank currently does not expect the debtor to settle the debenture at a price less than the amortized cost basis of the investment (i.e., the Bank expects to recover the entire amortized cost basis of the security). Because the Bank does not intend to sell the investment and it is not more likely than not that the Bank will be required to sell the investment before recovery of its par value, which may be maturity, it does not consider this investment to be other-than-temporarily impaired at December 31, 2019.

The Bank's marketable equity securities, with carrying values of $1,003 and $974 for the years ended December 31, 2019 and 2018, respectively, consisted exclusively of two Community Reinvestment Act ("CRA") related mutual funds. There was an unrealized gain of $3 and unrealized loss of $26 on the mutual funds for the years ended December 31, 2019 and 2018, respectively. The increase in the unrealized gain of $29 in 2019 is included in the accompanying statement of income.

5. LOANS, NET

Loans classified by segment and class are summarized as follows at December 31:

	2019	2018
Residential Real Estate	$ 501,050	$ 492,414
Commercial Real Estate	12,909	10,998
Commercial and Industrial	4,148	7,450
Consumer	13,463	13,158
	531,570	524,020
Unamortized loan premiums	2,832	2,332
Net deferred loan fees	(15)	(18)
Allowance for loan losses	(10,262)	(10,273)
	$ 524,125	**$ 516,061**

A reconciliation of the recorded investment in loans is as follows at December 31:

	2019	2018
Gross loans	$ 531,570	$ 524,020
Accrued interest receivable	2,618	2,634
Unamortized loan premiums	2,832	2,332
Net deferred loan fees	(15)	(18)
Recorded investment in loans	**$ 537,005**	**$ 528,968**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The Bank had pledged $480,936 and $476,210 of residential real estate loans as collateral for advances from the Federal Home Loan Bank of Atlanta at December 31, 2019 and 2018, respectively.

During 2019 and 2018, the Bank purchased $28,941 and $10,834, respectively, in residential real estate loans for which there was, at acquisition, no evidence of deterioration of credit quality since origination. The purchase premium amounted to $572 and $171 for 2019 and 2018, respectively.

The following tables present by portfolio segment, the changes in the allowance for loan losses and recorded investment in loans for the years ended December 31, 2019 and 2018:

For the Year Ended December 31, 2019

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 8,349	$ 1,021	$ 379	$ 524	$ 10,273
Charge-offs	(135)	-	-	(125)	(260)
Recoveries	179	-	-	70	249
Provision	-	-	-	-	-
Ending balance	**$ 8,393**	**$ 1,021**	**$ 379**	**$ 469**	**$ 10,262**
Ending balance: individually evaluated for impairment	$ 3	$ -	$ -	$ -	$ 3
Ending balance: collectively evaluated for impairment	$ 8,390	$ 1,021	$ 379	$ 469	$ 10,259
Recorded investment in loans:					
Ending balance	**$ 506,330**	**$ 12,992**	**$ 4,167**	**$ 13,516**	**$ 537,005**
Ending balance: individually evaluated for impairment	$ 14,976	$ 619	$ -	$ 63	$ 15,658
Ending balance: collectively evaluated for impairment	$ 491,354	$ 12,373	$ 4,167	$ 13,453	$ 521,347

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

For the Year Ended December 31, 2018

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 8,366	$ 1,023	$ 379	$ 517	$ 10,285
Charge-offs	(148)	(2)	-	(102)	(252)
Recoveries	131	-	-	109	240
Provision	-	-	-	-	-
Ending balance	**$ 8,349**	**$ 1,021**	**$ 379**	**$ 524**	**$ 10,273**
Ending balance: individually evaluated for impairment	$ 1	$ -	$ -	$ -	$ 1
Ending balance: collectively evaluated for impairment	$ 8,348	$ 1,021	$ 379	$ 524	$ 10,272
Recorded investment in loans:					
Ending balance	**$ 497,225**	**$ 11,048**	**$ 7,478**	**$ 13,217**	**$ 528,968**
Ending balance: individually evaluated for impairment	$ 15,829	$ 905	$ -	$ 94	$ 16,828
Ending balance: collectively evaluated for impairment	$ 481,396	$ 10,143	$ 7,478	$ 13,123	$ 512,140

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables represent credit exposures by internally assigned grades for years ended December 31, 2019 and 2018:

For the Year Ended December 31, 2019

	Pass	Especially Mentioned	Substandard	Total
Revolving 1-4 family	$ 165	$ -	$ -	$ 165
Single family residences	45,336	-	117	45,453
Condominiums	259,582	222	4,120	263,924
Planned unit developments	192,043	92	4,653	196,788
Construction and development	1,054	-	-	1,054
Multifamily residential	6,034	396	-	6,430
Non-residential owner occupied	2,291	-	223	2,514
Non-residential investor owned	2,994	-	-	2,994
Trucks and trailers	8	-	-	8
Secured by standby letters of credit	-	-	-	-
CD secured	4,159	-	-	4,159
Credit cards	2,144	-	-	2,144
Other consumer	11,291	18	63	11,372
Total	**$ 527,101**	**$ 728**	**$ 9,176**	**$ 537,005**

For the Year Ended December 31, 2018

	Pass	Especially Mentioned	Substandard	Total
Revolving 1-4 family	$ 173	$ -	$ -	$ 173
Single family residences	37,677	-	118	37,795
Condominiums	251,112	355	4,113	255,580
Planned unit developments	198,860	1,026	3,791	203,677
Construction and development	746	-	55	801
Multifamily residential	4,457	407	-	4,864
Non-residential owner occupied	2,659	84	227	2,970
Non-residential investor owned	2,197	-	216	2,413
Trucks and trailers	32	-	-	32
Secured by standby letters of credit	193	-	-	193
CD secured	7,253	-	-	7,253
Credit cards	2,093	-	-	2,093
Other consumer	10,974	56	94	11,124
Total	**$ 518,426**	**$ 1,928**	**$ 8,614**	**$ 528,968**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables present performing and nonperforming loans based on payment activity for the years ended December 31, 2019 and 2018. Payment activity is reviewed by management on a monthly basis to determine how loans are performing.

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

For the Year Ended December 31, 2019

	Performing	Nonperforming	Total
Revolving 1-4 family	$ 165	$ -	$ 165
Single family residences	45,336	117	45,453
Condominiums	259,804	4,120	263,924
Planned unit developments	192,280	4,508	196,788
Construction and development	1,054	-	1,054
Multifamily residential	6,430	-	6,430
Non-residential owner occupied	2,514	-	2,514
Non-residential investor owned	2,994	-	2,994
Trucks and trailers	8	-	8
Secured by standby letters of credit	-	-	-
CD secured	4,159	-	4,159
Credit cards	2,144	-	2,144
Other consumer	11,324	48	11,373
Total	**$ 528,212**	**$ 8,793**	**$ 537,005**

For the Year Ended December 31, 2018

	Performing	Nonperforming	Total
Revolving 1-4 family	$ 173	$ -	$ 173
Single family residences	37,677	117	37,794
Condominiums	251,769	3,811	255,580
Planned unit developments	200,088	3,590	203,678
Construction and development	801	-	801
Multifamily residential	4,864	-	4,864
Non-residential owner occupied	2,971	-	2,971
Non-residential investor owned	2,196	216	2,412
Trucks and trailers	32	-	32
Secured by standby letters of credit	193	-	193
CD secured	7,253	-	7,253
Credit cards	2,093	-	2,093
Other consumer	11,061	63	11,124
Total	**$ 521,171**	**$ 7,797**	**$ 528,968**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

Following are tables which include an aging analysis of the recorded investment in past due loans as of December 31, 2019 and 2018:

For the Year Ended December 31, 2019	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Revolving 1-4 family	$ -	$ -	$ -	$ -	$ 165	$ 165
Single family residences	1,182	-	117	1,299	44,154	45,453
Condominiums	4,304	-	4,120	8,424	255,500	263,924
Planned unit developments	3,565	-	4,508	8,073	188,715	196,788
Construction and development	-	-	-	-	1,054	1,054
Multifamily residential	-	-	-	-	6,430	6,430
Non-residential owner occupied	223	-	-	223	2,291	2,514
Non-residential investor owned	-	-	-	-	2,994	2,994
Trucks and trailers	-	-	-	-	8	8
Secured by standby letters of credit	-	-	-	-	-	-
CD secured	-	-	-	-	4,159	4,159
Credit cards	-	-	-	-	2,144	2,144
Other consumer	420	-	48	468	10,904	11,372
Total	**$ 9,694**	**$ -**	**$ 8,793**	**$ 18,487**	**$ 518,518**	**$ 537,005**

For the Year Ended December 31, 2018	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Revolving 1-4 family	$ -	$ -	$ -	$ -	$ 173	$ 173
Single family residences	589	-	117	706	37,089	37,795
Condominiums	5,865	123	3,811	9,799	245,781	255,580
Planned unit developments	4,447	792	3,590	8,829	194,848	203,677
Construction and development	-	-	-	-	801	801
Multifamily residential	-	-	-	-	4,864	4,864
Non-residential owner occupied	-	-	-	-	2,971	2,971
Non-residential investor owned	-	-	216	216	2,196	2,412
Trucks and trailers	-	-	-	-	32	32
Secured by standby letters of credit	-	-	-	-	193	193
CD secured	217	-	-	217	7,036	7,253
Credit cards	-	-	-	-	2,093	2,093
Other consumer	408	-	63	471	10,653	11,124
Total	**$ 11,526**	**$ 915**	**$ 7,797**	**$ 20,238**	**$ 508,730**	**$ 528,968**

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, at December 31, 2019 and 2018. Also presented are the average recorded investments in the impaired loans and the related amounts of interest recognized during the time within the years ended December 31, 2019 and 2018 that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the loans of the period reported.

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Revolving 1-4 family	$ -	$ -	$ -	$ -	$ -
Single family residences	117	117	-	118	-
Condominiums	4,120	4,099	-	4,112	21
Planned unit developments	4,653	4,651	-	4,222	2
Construction and development	-	-	-	-	-
Multifamily residential	-	-	-	-	-
Non-residential owner occupied	223	218	-	225	5
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	63	62	-	79	1
	9,176	9,147	-	8,756	29
With an allowance recorded:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	449	445	-	1,011	4
Condominiums	4,062	4,024	2	4,175	38
Planned unit developments	1,575	1,564	1	1,765	11
Construction and development	-	-	-	-	-
Multifamily residential	396	394	-	402	2
Non-residential owner occupied	-	-	-	-	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
	6,482	6,427	3	7,353	55
Total:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	566	562	-	1,129	4
Condominiums	8,182	8,123	2	8,287	59
Planned unit developments	6,228	6,215	1	5,987	13
Construction and development	-	-	-	-	-
Multifamily residential	396	394	-	402	2
Non-residential owner occupied	223	218	-	225	5
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	63	62	-	79	1
Total	**$ 15,658**	**$ 15,574**	**$ 3**	**$ 16,109**	**$ 84**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2018

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Revolving 1-4 family	$ -	$ -	$ -	$ -	$ -
Single family residences	118	118	-	239	-
Condominiums	4,104	4,099	-	4,407	5
Planned unit developments	3,791	3,790	-	4,085	1
Construction and development	55	55	-	56	-
Multifamily residential	-	-	-	-	-
Non-residential owner occupied	227	222	-	231	5
Non-residential investor owned	216	216	-	216	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	94	94	-	107	-
	8,605	8,594	-	9,341	11
With an allowance recorded:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	1,574	1,562	-	1,790	12
Condominiums	4,288	4,247	1	4,687	41
Planned unit developments	1,954	1,936	-	2,129	18
Construction and development	-	-	-	-	-
Multifamily residential	407	405	-	589	2
Non-residential owner occupied	-	-	-	-	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
	8,223	8,150	1	9,196	73
Total:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	1,692	1,680	-	2,029	12
Condominiums	8,392	8,346	1	9,094	46
Planned unit developments	5,745	5,726	-	6,214	19
Construction and development	55	55	-	56	-
Multifamily residential	407	405	-	589	2
Non-residential owner occupied	227	222	-	231	5
Non-residential investor owned	216	216	-	216	-
Trucks and trailers	-	-	-	-	-
Secured by standby letters of credit	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	94	94	-	107	-
Total	**$ 16,828**	**$ 16,744**	**$ 1**	**$ 18,536**	**$ 84**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of December 31, 2019 and 2018, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process amounted to $3,756 and $2,590, respectively.

As of December 31, 2019 and 2018, there were no financing receivables modified as troubled debt restructurings within the previous twelve months.

As of December 31, 2019 and 2018, there were no commitments to lend additional funds to debtors owing receivables whose terms have been modified in a troubled debt restructuring.

6. FORECLOSED ASSETS

Income (expenses) applicable to foreclosed assets include the following:

	Year Ended December 31	
	2019	**2018**
Net gain on sales of foreclosed assets	$ 224	$ 12
Operating expenses	(34)	(37)
	$ 190	**$ (25)**

7. PROPERTY AND EQUIPMENT, NET

A summary of the cost and accumulated depreciation and amortization of property and equipment follows at December 31:

	2019	**2018**
Leasehold improvements	$ 2,514	$ 2,472
Furniture, fixtures and equipment	2,659	2,626
	5,173	5,098
Less: Accumulated depreciation and amortization	(4,993)	(4,562)
	$ 180	**$ 536**

Depreciation and amortization expense amounted to $461 and $617 for the years ended December 31, 2019 and 2018, respectively. The Bank had approximately $30 and $185 of disposals during the years ended December 31, 2019 and 2018, respectively, for which the assets' carrying amount and related accumulated depreciation were removed from the accounts.

8. OTHER ASSETS

Other assets consist of the following at December 31:

	2019	**2018**
Accrued interest receivable - loans	$ 2,618	$ 2,634
Accrued interest receivable - securities	1,331	1,209
Prepaids	1,032	605
Income tax receivable	476	136
Other	573	578
	$ 6,030	**$ 5,162**

(IN THOUSANDS)

9. DEPOSITS

The aggregate amount of time deposits in denominations of $250, or more, was approximately $152,000 and $98,000 at December 31, 2019 and 2018, respectively.

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2020	181,784
2021	10,204
2022	585
2023	1,301
	$ 193,874

The aggregate amount of deposits reclassified as loan balances at December 31, 2019 and 2018 amounted to $8 and $4, respectively.

10. BORROWINGS

FHLB Advances

Maturities and interest rates of FHLB advances consisted of the following at December 31:

Fixed Rate Advances Contractually Maturing:	Range of Interest Rates	2019	2018
2019	1.185 - 2.772%	-	21,800
2020	2.810 - 2.875%	13,200	13,200
		$ 13,200	**$ 35,000**

The Bank has an available line of credit with the FHLB of Atlanta at an interest rate that adjusts daily. Borrowings under the line are limited to 25% of the Bank's total assets at December 31, 2019 and 2018. All borrowings from the FHLB of Atlanta are secured by a blanket lien on the carrying value of first mortgage loans on residential property, which amounted to $480,936 and $476,210 at December 31, 2019 and 2018, respectively.

Federal Funds Purchased and Other Lines

The Bank has federal funds purchased and other unsecured lines with other depository institutions, which allow the Bank to borrow short term funds as needed to manage liquidity. The Bank's available lines totaled $30,000 and $25,000 at December 31, 2019 and 2018, respectively. There were no outstanding balances as of December 31, 2019 and 2018.

(IN THOUSANDS)

11. OTHER LIABILITIES

Other liabilities consist of the following at December 31:

	2019	2018
Deferred compensation	$ 3,444	$ 4,055
Accruals	1,099	1,034
Accrued interest	1,937	772
Other	382	831
	$ 6,862	**$ 6,692**

12. REVENUE RECOGNITION

The Bank adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) on January 1, 2019. The Bank elected to apply the ASU and all related ASUs using the modified retrospective transition method. The implementation of the guidance had no material impact on the measurement or recognition of revenue of prior periods. The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

All of the Bank's revenue from contracts with customers within the scope of Topic 606 is included in noninterest income on the accompanying statements of income. The following is a description of the Bank's revenue streams accounted for under Topic 606:

Card income – Card income includes annual, late and over-limit fees as well as fees earned from interchange, cash advances and other miscellaneous transactions and is presented net of direct costs. Interchange fees are recognized upon settlement of the credit and debit card payment transactions and are generally determined on a percentage basis for credit cards and fixed rates for debit cards based on the corresponding payment network's rates. Substantially all card fees are recognized at the transaction date, except for certain time-based fees such as annual fees, which are recognized over 12 months. Card income amounted to $435 and $475 for the years ended December 31, 2019 and 2018, respectively.

Service charges on deposit accounts – The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include but are not limited to services such as wire transfers, ATM use fees, stop payment charges, statement rendering, ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. Service charges on deposit accounts amounted to $2,987 and $3,376 for the years ended December 31, 2019 and 2018, respectively.

Gain/loss on sale of foreclosed asset – The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC 606 implications unless the Bank finances the sale of OREO. There are no instances of the Bank financing the sale of its OREO properties as of December 31, 2019.

(IN THOUSANDS)

13. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31:

	2019	2018
Current tax provision:		
Federal	$ 1,727	$ 1,461
State	457	354
	2,184	1,815
Deferred tax provision (benefit):		
Federal	82	(83)
State	110	(19)
	192	(102)
Total	**$ 2,376**	**$ 1,713**

The actual income tax expense for 2019 and 2018 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 21% to income before provision from income taxes) as follows for the years ended December 31:

	2019	2018
Federal income taxes, at statutory rate	$ 1,852	$ 1,755
State income taxes, net of federal tax benefit	333	264
Tax-exempt interest	36	(287)
Other permanent differences	89	(19)
Change in Florida tax rate	66	-
Total	**$ 2,376**	**$ 1,713**

(IN THOUSANDS)

13. INCOME TAXES (CONTINUED)

The Bank's deferred tax assets (liabilities) are as follows at December 31:

	2019	2018
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 2,574	$ 2,600
Net unrealized (gain) loss on securities available for sale	(175)	2,226
Deferred compensation	834	999
Depreciation and amortization	263	231
Foreclosed assets	-	-
Other	(101)	(75)
Deferred tax asset, net	**$ 3,395**	**$ 5,981**

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Bank files income tax returns. The Bank is no longer subject to U.S. Federal or State examinations by tax authorities for years before 2016.

For the years ended December 31, 2019 and 2018, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

14. REGULATORY MATTERS

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

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the FDIC. These new requirements create a new required ratio for common equity tier 1 capital, increase the leverage and tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Under the new capital regulations, the minimum capital ratios are: (1) common equity tier 1 capital ratio of 4.5% of risk-weighted assets, (2) a tier 1 capital ratio of 6.0% of risk-weighted assets, (3) a total capital ratio of 8.0% of risk-weighted assets, and (4) a tier 1 capital to average assets ratio of 4.0%. Common equity tier 1 capital generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in its capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on its regulatory capital levels.

(IN THOUSANDS)

14. REGULATORY MATTERS (CONTINUED)

The Bank will have to maintain a capital conservation buffer consisting of additional common equity tier 1 capital greater than 2.5% to risk-weighted assets above the required minimum levels. This new capital conservation buffer requirement was phased in beginning in January 2016 at 0.635% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FDIC's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Bank must have a common equity tier 1 capital ratio of 6.5% (new), a tier 1 ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a leverage ratio of 5.0% (unchanged). The Bank meets all these new requirements, including the full capital conservation buffer.

As of December 31, 2019, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2019 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2019 and 2018 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019						
Total risk-based capital (to risk weighted assets)	$ 103,160	28.68%	$ 28,775	8.00%	$ 35,968	10.00%
Tier 1 capital (to risk weighted assets)	98,592	27.41%	21,581	6.00%	28,775	8.00%
Common equity tier 1 capital (to risk weighted assets)	98,592	27.41%	16,186	4.50%	23,379	6.50%
Tier 1 capital (to average total assets)	98,592	11.78%	33,491	4.00%	41,864	5.00%
2018						
Total risk-based capital (to risk weighted assets)	$ 102,451	30.25%	$ 27,095	8.00%	$ 33,868	10.00%
Tier 1 capital (to risk weighted assets)	98,142	28.98%	20,321	6.00%	27,095	8.00%
Common equity tier 1 capital (to risk weighted assets)	98,142	28.98%	15,241	4.50%	22,014	6.50%
Tier 1 capital (to average total assets)	98,142	12.30%	31,907	4.00%	39,883	5.00%

The Bank's payment of dividends is subject to the limitations set by state banking regulations.

(IN THOUSANDS)

15. COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to credit-related 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 standby letters of credit and commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on balance-sheet instruments. At December 31, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
Unfunded commitments under lines of credit	$ 2,424	$ 1,602
Standby letters of credit	1,546	2,666
Commitments to grant loans	9,500	4,074
	$ 13,470	$ 8,342

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, and at December 31, 2019 and 2018 such collateral amounted to $1,546 and $2,666, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts may not necessarily represent future cash requirements.

The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Operating Leases

The Bank leases many of its operating equipment and office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2022 and provide for renewal options ranging from one to three years. In the normal course of business, it is expected that these leases will be renewed or replaced. The Bank entered into a lease agreement with a related party for office space, which expires September 30, 2022.

Some of the leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Bank to pay executory costs (taxes, insurance, and repairs). Lease expense totaled $1,726 and $1,788 during 2019 and 2018, respectively. Sublease income totaled $176 and $164 during 2019 and 2018, respectively.

(IN THOUSANDS)

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (continued)

Minimum annual rental commitments under non-cancelable leases are as follows at December 31, 2019:

Year Ended December 31,	Annual Amount	Sublease Amounts	Net Minimum Payment
2020	$ 684	$ 68	$ 616
2021	662	70	592
2022	483	53	430
	$ 1,829	**$ 191**	**$ 1,638**

Litigation

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's financial statements.

16. DEFINED CONTRIBUTION RETIREMENT PLAN

The Bank has a defined contribution retirement plan (the "Plan") (a 401k plan) covering substantially all eligible employees. The Plan includes a provision that the employer may contribute to the accounts of eligible employees for whom a salary deferral is made. For the years ended December 31, 2019 and 2018, the Bank contributed $299 and $301, respectively, into the Plan.

17. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

The Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

17. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (continued)

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Bank's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no changes in the methodologies used at December 31, 2019 and 2018.

The following methods and assumptions were used by the Bank in estimating fair value of disclosures for financial instruments:

<u>Cash and Cash Equivalents</u>

The carrying amounts of cash and short-term instruments approximate fair value based on the short-term nature of the assets.

<u>Securities</u>

Where quoted prices are available in an active market, the Bank classifies the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities included highly liquid government bonds and marketable equity securities.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Governments-sponsored enterprise obligations, corporate and municipal bonds, and mortgage-backed securities are included in level 2 since observable inputs are available.

<u>FHLB stock</u>

Investment in FHLB stock is recorded at cost, which approximates fair value.

<u>Loans</u>

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

<u>Accrued Interest</u>

The carrying amounts of accrued interest approximate fair value.

(IN THOUSANDS)

17. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (continued)

Deposits

The fair values disclosed for demand, savings, NOW and money market deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for time deposits are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

FHLB Advances

Fair values of short-term borrowings are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instruments 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 standing.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2019 Using			
Securities Available for Sale	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
GSE's	$ 44,259	$ 1,362	$ 42,897	$ -
Municipal bonds	62,967	-	62,967	-
GSE residential mortgage-backed	118,410	-	118,410	-
Corporate bonds	3,512	-	3,512	-
Total debt securities	229,148	1,362	227,786	-
Marketable equity securities	1,003	1,003	-	-
Total mutual funds	**$ 230,151**	**$ 2,365**	**$ 227,786**	**$ -**

(IN THOUSANDS)

17. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (continued)

	Fair Value Measurements at December 31, 2018 Using			
Securities Available for Sale	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
U.S. Government and federal agency	$ 2,971	$ -	$ 2,971	$ -
GSE's	30,274	-	30,274	-
Municipal bonds	59,076	-	59,076	-
GSE residential mortgage-backed	125,006	-	125,006	-
Corporate bonds	5,268	-	5,268	-
Total debt securities	222,595	-	222,595	-
Marketable equity securities	974	974	-	-
Total mutual funds	**$ 223,569**	**$ 974**	**$ 222,595**	**$ -**

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, the Bank makes adjustments to fair value for its assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the balance sheets by caption and by level in the fair value hierarchy at December 31, 2019 and 2018, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at December 31, 2019 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 6,424	$ -	$ -	$ 6,424
Total assets at fair value	**$ 6,424**	**$ -**	**$ -**	**$ 6,424**

(IN THOUSANDS)

17. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis (continued)

	Fair Value Measurements at December 31, 2018 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 8,149	$ -	$ -	$ 8,149
Total assets at fair value	**$ 8,149**	**$ -**	**$ -**	**$ 8,149**

Impaired Loans

In accordance with the provisions of the loan impairment guidance, individual loans with a carrying amount of $6,427 and $8,150 at December 31, 2019 and 2018, respectively, were written down to their fair value of $6,424 and $8,149, respectively, resulting in an impairment charge of $3 and $1, respectively, which was included in the allowance for loan losses for the period. Loans applicable to write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions. The Bank's impaired loans are classified in Level 3 of the fair value hierarchy since the valuation technique requires inputs that are both significant and unobservable.

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2019 and 2018.

(IN THOUSANDS)

17. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

The estimated fair values, and related carrying or notional amounts, of the Bank's financial instruments are as follows:

	December 31, 2019	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	$ 77,379	$ 77,379
Securities available for sale	229,148	229,148
Marketable equity securities	1,003	1,003
Federal Home Loan Bank stock (restricted)	1,260	1,260
Loans, net	524,125	524,365
Accrued interest receivable	3,949	3,949
Financial Liabilities:		
Deposits	719,581	720,133
Federal Home Loan Bank advances	13,200	13,299
Accrued interest payable	1,937	1,937

	December 31, 2018	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	$ 23,349	$ 23,349
Securities available for sale	222,595	222,595
Marketable equity securities	974	974
Federal Home Loan Bank stock (restricted)	2,190	2,190
Loans, net	516,061	515,877
Accrued interest receivable	3,843	3,843
Financial Liabilities:		
Deposits	639,082	638,705
Federal Home Loan Bank advances	35,000	34,917
Accrued interest payable	772	772