Banesco

Annual Report 2019

Banesco

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A word from our President & CEO

MARIO OLIVA
President & CEO Banesco USA

Dear Banesco USA family,

Let's take a moment to evaluate our success over the past year and identify areas where we can improve. This year has brought on new growth and advancements.

Along with the addition of two new South Florida Business Centers and improved products and services, I am pleased to announce that 2019 has been a year full of growth. Banesco USA increased its total assets to $1.28B. Our loan portfolio increased over $946.7MM and total deposits were more than $1.1B.

We continue offering assistance to small and medium businesses throughout South Florida and Puerto Rico by providing a robust value proposition, as well as specialized products, services and efficient processes to help local entrepreneurs reach their goals.

Over the past year, Banesco USA has emerged as the local frontrunner among community banks in the area of technological innovation through a series of fintech partnerships and advancements in the area of customer experience. Our new account opening on-boarding platform delivers a better customer experience with faster service times. The bank automated a commercial credit process by partnering with fintech nCino, the #1 Commercial Loan Origination System in the USA, delivering a transparent process that results in faster and easier access to credit. Banesco USA also partnered with Plug and Play, one of the largest innovation platforms located in Sillicon Valley. Additionally, the bank also launched their new online and mobile banking platform, BanescOnline and BanescoMobile. The new and improved digital interface went live on October 8th, 2019.

Finally, this year has been witness to local recognition and ongoing financial growth for Banesco USA. South Florida Business Journal named Banesco USA Business of the Year, and we were selected by The Ritz Carlton Residences in Sunny Isles to be a preferred lender. In November, the bank opened a new branch in Brickell, Miami's financial corridor, as a result of the acquisition earlier this year of Brickell Bank.

We are pleased with our contributions in this year of economic growth and commitment to innovation. Thank you to each and every one of our customers, investors and staff for your unwavering support and commitment to make Banesco USA the outstanding organization that it is.

Best regards,

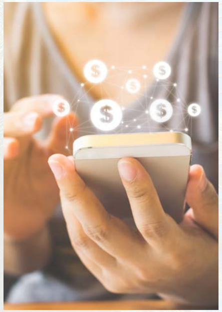
Mario Oliva
President & CEO of Banesco USA

Banesco USA by the numbers

$1.28B
In Total Assets

$946.7MM
Loan Portfolio

$1.1B
In Deposits



$51.9MM
2018 Annual Revenue

10.58%
Return on Equity

$12.9MM
2018 Annual Net Income

Banesco Americas Corporation

Banesco Americas Corporation is a worldwide network of financial institutions with presence in 15 countries. The largest bank by assets of the network, is the Spanish group Abanca.

+ 11 thousand Employees

+ 6 million Clients

US$5,794 million Net Equity

Banesco Americas has more than US$ 72,170 million in assets and more than 6 million clients.

We Have 34 Years of History and prescense in 15 Countries.

Our International Expansion has Focused on Retail Banking and Trade Business.

1985

We started with the creation of a brokerage house.

1992 1993

Banesco International Corp. (Puerto Rico) and Banesco International Bank (Panama) begin operations as off shores banks.
In Venezuela it starts in the banking sector as Grupo Bancentro (Grupo Financiero BANESCO).

2006

We establish our Holding in Spain.
Banesco Panama obtains the commercial bank license

2007

BBU Bank (now Banesco USA) begins operations in South Florida.

2010

Banesco International Corp. (Puerto Rico) merges with Banesco USA.

2011

Banesco Banco Multiple begins operations in the Dominican Republic.

2012 2013

We buy Banco Etch-everría.
Banesco Panama opening representative office in Colombia and receives approval for the purchase of SFA Banco in Curaçao.

2014

Banesco Hispania acquires Nova Caixa Galicia.
It works with Echeverría and subsequently chang-es its commercial name to Abanca.

2015

Abanca opens a representative office in Mexico City.

2017

Abanca opens a representative office in Rio de Janeiro (Brazil) and completes the acquisition of Popular Financial Services Constitution of SOFOM Feel Common Mexico in 2017.

2018

Start of Abanca integra-tion between Deutsche Bank PCC Portugal and Banco Caixa Geral.

2019

Abanca acquires Banco Caixa Geral, S.A
Abanca opens in Brickell, South Florida.
Banesco USA acquires Brickell Bank.

American Expansion — European Expansion

3 — 4 — 4 — 4 — 5 — 8 — 12 — 12 — 13 — 14 — 15

No. of Countries with Presence

Banesco International

has more than
$72,000 million in assets and
more than 6 million clients

Presence in
15 countries

US $5,855
million net equity

+6 million
Clients

+11 thousand
Employees

US $45,913 million
Loan Portfolio

US $47,716 million
in Deposits

1,142
Branches

US $72,170 million
in Assets

Business Banking and Business Centers

NELSON HIDALGO
Executive Vice-President, Head of Corporate Banking

2019 was a year full of challenges but also a year of important achievements:

- Named Business of the Year by South Florida Business Journal.
- Selected by The Ritz Carlton Residences in Sunny Isles to be a preferred lender.
- The acquisition of Brickell Bank.
- The opening of two new Business Centers located in Aventura and Brickell.

"Banesco USA is an institution with deep roots in the communities it serves. Its mission is to provide the best and safest banking experience enhanced by the latest technology to make banking more convenient to its customers"

Corporate Banking

At Banesco USA we offer several business loans depending on the business specific reality and needs. That's why our decision-making process is local and takes place right here in our Coral Gables headquarters by people that understand local dynamics, know the neighborhoods and have the pulse of the area.

Owner Occupied Loans
For acquisition of fixed assets such as land and building, new construction or purchase and renovation.

Commercial Lines of Credit
For supplementing temporary working capital requirements or seasonal cash flow needs.

Term Commercial Loans
For the purchase of equipment with competitive interest rates and payment programs.

Real Estate Investment Loans
For the acquisition of real estate properties with the purpose of investment and income generation.

Banesco USA's Business Checking Accounts are designed for Businesses that have a significant amount of capital that require complex banking solutions and for those that are just starting out with basic checking needs. Our Business and Cash Management Services Include:

BanescOnline:
Online Banking.
View account balances and activity online, transfer funds, make payments, pay bills, create alerts and communicate with Banesco USA via secure messaging.

BanescoMobile:
Mobile Banking. From transferring funds to scheduling recurring payments to depositing checks, BanescoMobile means you can do more anytime, anywhere.

BanescoMobile Check Deposit:
Deposit checks to your account anytime, anywhere using your smartphone's camera.

Banesco Visa® Check Card: Easily and safely manage your Business Checking Account through your VISA@ Check Card. Prevent debit card fraud by monitoring your debit card usage from anywhere, 24/7 through email or text message.

Automatic Clearing House (ACH) Origination: Securely send and/or receive electronic payments to make your operation more efficient. The transfer process is automated, convenient and predictable, giving you better control of your funds at less cost to your company.

E-wires: Transfer funds domestically and internationally through BanescOnline.

Remote Deposit Capture: Through a small desk-top scanner you can deposit checks right from your office PC. Checks are cleared faster, funds are available faster and cash flow is improved.

Digital Token: A security feature enabled by an App that allows you to process online transactions quickly with an additional layer of security.

Positive Pay: A free service for business accounts that protects you from check fraud.

Lock Box: Comprehensive remittance processing to streamline receivables and reduce the potential of fraud and error. It also lets you receive client / consumer payments for faster cash flow of your business.

Terminal & Point of Sale: Accept virtually any payment type including Visa, Mastercard, Diners Club International, American Express, Discover Network, Pin-based or signature debit cards, gift cards and checks with our comprehensive suite of affordable terminals and peripherals.

E-commerce: Process online, phone or mail order payments through our state-of-the-art solutions that are convenient for your clients as well as secure and reliable for your business.

Security and Compliance: Our comprehensive security solutions protect your client's data during and after transactions. It helps defend your system against cyber-attacks in order to protect the success of your business.

Detect Safe Browsing ®: Detect Safe Browsing from Easy Solutions® is an industry-leading security application designed to protect your information when you're using BanescOnline and BanescoMobile.

International Business

"Our privileged locations make Banesco USA a one-of-a-kind community bank. We are a trilingual, multicultural institution ready to meet the demands, not only of our communities by supporting local businesses and families alike, but also those multinational companies who need global banking services for transacting business"

Banesco USA offers a wide range of international banking services including:

- **Experience:** Banesco USA's international roots create an institution attuned to the needs of diverse and increasingly international communities. This includes international personal banking services that are attractive to many business owners.
- **Presence:** Representative offices in 15 countries and territories via its affiliation with Banesco International and partner companies (Argentina, Colombia, Dominican Republic, France, Germany, Mexico, Panama, Portugal, Puerto Rico, Spain, Switzerland, United Kingdom, and Venezuela).
- **Business Checking Accounts:** With features like unlimited checks, no maintenance fees when maintaining the minimum daily balance required, online and mobile banking, electronic statements at no charge.
- **Business Savings Accounts:** With features to open savings accounts online, interest earned credited into your account at the end of the statement cycle, no maintenance fees when maintaining the minimum daily balance required, online and mobile banking, and electronic statements at no charge.
- **Money Market Accounts:** Immediate account access, interest earned credited into your account at the end of the statement cycle, no maintenance fees when maintaining the minimum daily balance required, online and mobile banking, electronic statements at no charge.
- **Certificates of Deposits:** Competitive rates and a wide variety of terms for international business customers, from 30 days to 5 years. You can choose your own payment schedule, either monthly, quarterly, semi-annually or at maturity. CDs are subject to early withdrawal penalties.
- **Partnership with Local Agency:** Where we refer our customers for investment needs.
- **Foreign Correspondent Banking**

Customer Experience & Innovation

GUSTAVO RENGIFO
Vice-President, Head of Customer Experience

Banesco USA continues with its commitment to innovative banking. Since its establishment in 2006, Banesco USA has embraced an ambitious digital transformation initiative and maintains a clear and constant path towards innovation and excellence in customer experience.

There were several initiatives in 2019 that supported its transformation:

New BanescOnline and BanescoMobile
A partnership with fintech, Q2ebanking to offer a new online & mobile banking platform that maximize the integration of other bank systems in order to deliver the best user experience and functionality. The bank supports clients' business to the full extent through a single, unified customer interface resulting in a better digital customer journey.

New account opening platform
The implementation of a new account opening on-boarding platform to deliver a better customer experience with faster service times.

New Business Center in Aventura
The full service-branch includes an intelligent ATM (ITM), teller cash recycler (TCR), iPad Stations, consultation rooms and high-end projection monitors to deliver the best of balance among convenience, technology, flexibility and personal touch. In addition, the branch provides clients 24/7 access to the ATM and deposits by swiping their debit cards for access.

The branch's open floor plan and architectural elements aims to create a different banking experience that's more welcoming and collaborative for clients. The space features an overhead wood ceiling that unfolds and greets visitors with dynamic angles while glass and high ceilings provide ample natural light and connection to the surrounding area.

Customer Experience & Innovation

Robotic Process Automation (RPA)
RPA is the process of automating manual tasks by implementing software “robots” that can be programmed to do basic tasks across applications, improving the efficiency and accuracy of the processes, enabling Banesco USA employees to focus on higher-value work.

Benefits of Robotic Process Automation

Accuracy
Extreme accuracy and uniformity - much less prone to error or typos

Improved Employee Morale
Workers can dedicate more time to engaging interesting work

Low Technical Barrier
No programming skills necessary to configure a Robo assistant

Productivity
Process cycles times are much faster compared to manual process approaches

Compliance
Robo assistants follow regulary compliance rules to a tee and provide an audit trail history

Reliability
Robo assistants tirelessly work 24/7 without interruption

Non-Invasive Technology
No disruption to underlying legacy systems, reducing the burden on IT

Consistency
Routine tasks are performed the same way each and every time

Banesco USA will continue to grow and transform, but its unwavering commitment of personal banking services will always remain.

HUMAN RESOURCES

We are committed to living and working by our upstanding values.
Banesco USA's core model has always been centered around a team of responsive, dedicated, passionate and committed financial professionals who enable our customers to reach their personal and professional goals. Together with a diverse and talented staff and dedicated management, we always aim to reflect our following core values:

1 RESPONSIBILITY

We fulfill our commitments to our customers, teams and society.

We behave according to what we declare.

We stay focused until we know that we have exceeded our customer's expectations.

We respect valuable ideas, even if they are different from ours.

2 RELIABILITY

We defend the interests of the clients and the organization above our own.

We act with generosity and consider the impact of our actions, prioritizing collaborative work.

We speak openly about risks and limitations, we recognize when we fail, and when we make mistakes.

3 QUALITY

We work with passion to give the best solution to the client, optimally using time and resources.

We equip ourselves with agile, simple and scalable processes that allow us to do things right from the beginning.

4 INNOVATION

We encourage entrepreneurship and experimentation, we are tolerant of failures, and learn from them.

We build a vision of the future and transversality for our organization.

We know the best technological and non-technological solutions and incorporate them in a timely and efficient manner.

Corporate Social Responsibility

Supporting our Communities

It is part of our culture to give, not just monetarily but with our time, working handing in hand with the organizations we support like Kapow, Junior Achievement, St Jude Childrens' Hospital, and Cristo Rey Miami High School.

Among the efforts are:

Living Hope Haiti Mission
Banesco USA staff came together to collect money, clothing and personal hygiene items to support the Living Hope Haiti Mission. Thanks to the great hearts of the Banesco USA family and the friends and relatives of Niuvis Miralles, our Electronic Banking Specialist, many of those most in need in Haiti received help.

Junior Achievement
We also partnered with Junior Achievement, the world's largest non-profit organization, dedicated to giving students K-12 the knowledge and skills they need to own their economic success, plan their future and make smart academic and economic choices. Our employees provided relevant, hands-on experience in financial literacy, work readiness and entrepreneurship to these students.

Supporting our communities
In continuing support of the communities it serves, Banesco USA enabled 43 families from Morningside K-8 Academy to enjoy a full Thanksgiving dinner. The Banesco USA Doral Business Center along with representatives of the school distributed turkeys and all the necessary food items for a traditional dinner.

Voices for Children
As part of our Corporate Social Responsibility Program, Banesco USA has partnered with Voices for Children of Broward County and the Judicial Circuit Guardians Program, with the mission of ensuring that every abused, neglected and abandoned child in Broward County has a court appointed Guardian and that financial resources are available for the health, educational and social needs of each child.

Banesco USA donated 170 backpacks full of school supplies for the children of this foundation.

+200 Volunteering Hours logged by Banesco USA Employees

Mercedes Benz Corporate Run
The purpose of the Mercedes-Benz Corporate Run is to promote running and walking for a healthy lifestyle. It seeks to foster community interest in the benefits of physical exercise, camaraderie in the workplace, and encourage diversity. About 80 employees participated.

Banesco USA committed to a sustainable future
At Banesco USA we are committed to a sustainable future, reducing our impact on the environment and leaving a positive mark. We believe that small acts can make big differences and therefore we launched a campaign to raise awareness among employees about the use of non-recyclable products. We have also provided reusable water cups and containers to reduce the amount of non-recyclable waste.

Supporting Education
Banesco USA donated a total of 104 computer monitors, keyboards and mice to low-income schools in Miami-Dade.

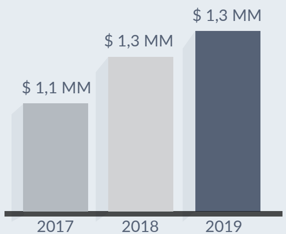
KAPOW
Kids and the Power of Work (KAPOW) brings Banesco USA volunteers into schools to help students connect school and work, and brings students into the Banesco USA Business Centers for real life work experiences.

We support the following organizations:

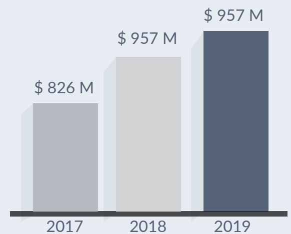
Condensed Consolidated Financial Statements

Financial Highlights

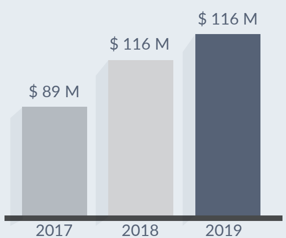
Assets



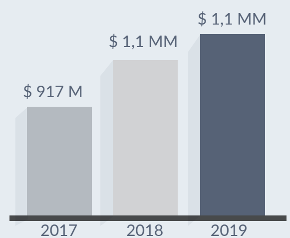
Loans (Gross)



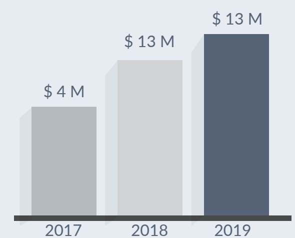
Capital



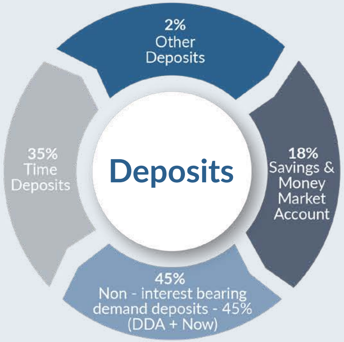
Deposits

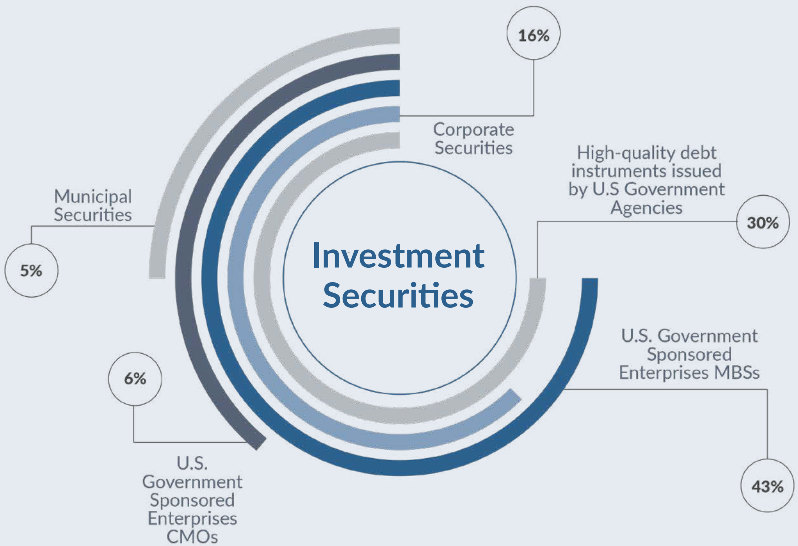


Net Income



Financial Highlights





Executive Team

MARIO OLIVA
President & CEO

MERCEDES ESCOTET
Executive Vice - President,
Chief Financial Officer

ALBA PRÉSTAMO
Executive Vice - President,
Chief Compliance Officer

LETICIA PINO
Executive Vice - President,
Operations & Administrative Officer

MARITZA ABADÍA
Executive Vice - President,
Puerto Rico Country Manager

LUIS A. GRAU
Senior Vice - President,
Head of international

ALINA ROBAU
Senior Vice - President,
Head of SMB, Lending & Branches

MICHEL VOGEL
Senior Vice - President,
Chief Credit Officer

JULIO VALLE
Executive Vice - President,
Chief Information Officer

KENNETH SCHOENI
Senior Vice - President,
Chief Risk Officer

GUSTAVO RENGIFO
Vice - President,
Head of Customer Experience

RAFAEL NAVARRO
Vice - President,
Strategic Planning Officer

NELSON HIDALGO
Executive Vice - President,
Head of Corporate Banking

Board of Directors

CARLOS PALOMARES
Chairman of the Board

MARIO OLIVA
President & CEO

JUAN CARLOS ESCOTE RODRÍGUEZ
Vice - Chairman of the Board

MIGUEL ÁNGEL MARCANO
Director

JUAN CARLOS ESCOTET ALVIAREZ
Director

SENO BRIL
Director

FRANCISCO J. PAREDES
Director

Banesco

banescousa.com

EQUAL HOUSING LENDER

Member FDIC

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

MORRISON BROWN ARGIZ & FARRA, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Banesco USA and Subsidiaries

We have audited the accompanying consolidated financial statements of Banesco USA and Subsidiaries (collectively the "Bank") (a Florida corporation), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. We also have audited the Bank's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Bank's internal control over financial reporting based on our audits. We conducted our audits 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 consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements 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. An audit of financial statements 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

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banesco USA and Subsidiaries 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. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the COSO relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Emphasis of Matter

The Bank evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income. There may be other matters that can occur related to the COVID-19 that could have a financial impact on the Bank's financial results that is unknown at this time.

Morrison, Brown, Argiz & Farra

Miami, Florida
April 27, 2020

Management's Report on Internal Control Over Financial Reporting

Banesco USA and subsidiaries internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with generally accepted accounting principles (GAAP) accepted in the United States of America. Because management's assessment was conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our assessment of internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management of Banesco USA and subsidiaries is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of Banesco USA and subsidiaries internal control over financial reporting as of December 31, 2019, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). Based on that assessment, management concluded that, as of December 31, 2019, Banesco USA and subsidiaries internal control over financial reporting is effective, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Banesco USA and Subsidiaries

Miami, Florida
April 27, 2020

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

ASSETS	2019	2018
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 8,170,234	$ 5,964,365
Restricted cash (segregated under Federal and other regulations)	426,741	-
Interest bearing deposits in other financial institutions	53,526,522	66,413,902
TOTAL CASH AND CASH EQUIVALENTS	62,123,497	72,378,267
Investment securities available for sale	263,606,945	214,477,485
Investment securities held to maturity	546,518	5,707,645
Federal Home Loan Bank stock, at cost	7,534,200	3,306,200
Loans, net	1,327,901,088	946,393,862
Property and equipment, net	4,494,162	2,278,811
Accrued interest receivable	5,213,393	3,825,984
Deferred tax assets, net	8,513,533	4,779,558
Bank-owned life insurance	33,649,394	20,994,377
Due form clearing broker	501,250	-
Prepaid expenses and other assets	5,045,923	3,598,049
TOTAL ASSETS	**$ 1,719,129,903**	**$ 1,277,740,238**
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Noninterest bearing demand deposits	$ 453,458,030	$ 391,901,070
Interest bearing demand deposits	162,259,752	120,700,050
Money market and savings accounts	248,882,652	199,538,090
Time deposits of $250,000 or more	203,760,599	175,902,594
Time deposits of less than $250,000	334,543,721	209,266,898
TOTAL DEPOSITS	1,402,904,754	1,097,308,702
Securities sold under agreements to repurchase	45,385	412,330
Federal Home Loan Bank advances	140,000,000	55,000,000
Accrued interest payable	3,978,204	2,436,554
Assignment of lease fee accrual	6,500,000	-
Accrued expenses and other liabilities	11,875,335	6,872,702
TOTAL LIABILITIES	1,565,303,678	1,162,030,288
COMMITMENTS AND CONTINGENCIES (NOTES 14 AND 16)		
STOCKHOLDERS' EQUITY:		
Common stock, $5 par value; 16,000,000 shares authorized in 2019 and 2018; 7,502,701 and 6,645,720 shares issued and outstanding in 2019 and 2018	37,513,505	33,228,600
Additional paid-in capital	72,726,786	59,152,209
Retained earnings	45,169,499	27,040,187
Accumulated other comprehensive loss, net of taxes	(1,583,565)	(3,711,046)
TOTAL STOCKHOLDERS' EQUITY	153,826,225	115,709,950
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,719,129,903**	**$ 1,277,740,238**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018
INTEREST AND DIVIDEND INCOME:		
Loan and fees on loans	$ 56,636,143	$ 46,000,969
Investment securities	7,053,528	4,844,982
Federal funds sold	2,471,697	868,661
Federal Home Loan Bank stock	209,583	220,375
TOTAL INTEREST AND DIVIDEND INCOME	66,370,951	51,934,987
INTEREST EXPENSES:		
Deposits	16,449,926	8,029,512
Federal Home Loan Bank advances	1,118,592	1,403,025
Other borrowed funds	11,244	16,283
TOTAL INTEREST EXPENSES	17,579,762	9,448,820
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	48,791,189	42,486,167
PROVISION FOR (REVERSAL OF) LOAN LOSSES	389,738	(4,042,777)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	48,401,451	46,528,944
NONINTEREST INCOME:		
Service fees on loans and deposits	4,375,518	5,369,852
Banked-owned life insurance income	655,017	689,294
Gain on sales of investment securities, (includes $4,726,986 and $80,177 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities, respectively)	4,726,986	80,177
Gain on resolution of acquired assets	1,216,799	30,820
Reversal of Provision for off-balance sheet	-	215,834
Bargain purchase gain	14,504,047	-
Commissions and other	3,786,251	3,258,016
TOTAL NONINTEREST INCOME	29,264,618	9,643,993
NONINTEREST EXPENSES:		
Salaries and employee benefits	29,783,267	24,901,666
Assignment of lease fee	6,500,000	-
Occupancy	3,795,177	2,959,106
Professional fees	3,424,382	2,461,204
Electronic data processing	3,150,726	2,367,950
Insurance and license fees	1,332,318	703,449
Depreciation and amortization	969,249	912,445
Communication	684,627	480,466
Advertising	526,532	519,493
FDIC insurance	506,714	741,912
Travel and entertainment	417,505	333,829
Provision for off-balance sheet	334,276	-
Acquisition related expenses	4,607,146	-
Other	1,626,155	1,650,926
TOTAL NONINTEREST EXPENSES	57,658,074	38,032,446
INCOME BEFORE INCOME TAXES	20,007,995	18,140,491
PROVISION FOR INCOME TAXES, (includes approximately $20,000 and $249,000 of income tax expenses from reclassification items, respectively)	1,878,683	5,199,732
NET INCOME	**$ 18,129,312**	**$ 12,940,759**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

2019		
NET INCOME		$ 18,129,312
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding gains arising during period (net of income taxes of approximately $1,921,000)	$ 5,656,177	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $1,198,000)	(3,528,696)	2,127,481
COMPREHENSIVE INCOME		**$ 20,256,793**
2018		
NET INCOME		$ 12,940,759
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding (losses) arising during period (net of income taxes of approximately $606,000)	$ (1,785,462)	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $20,000)	(59,853)	(1,845,315)
COMPREHENSIVE INCOME		**$ 11,095,444**

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

BANESCO USA AND SUBSIDIARIES

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

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income,	
	Shares	Par Value	Capital	Earnings	Net of Taxes	Total
BALANCES AT JANUARY 1, 2018	5,926,304	$ 29,631,520	$ 50,842,927	$ 14,099,428	$ (1,865,731)	$ 92,708,144
Capital Contribution	719,416	3,597,080	8,309,282	-	-	11,906,362
Net income	-	-	-	12,940,759	-	12,940,759
Other comprehensive loss	-	-	-	-	(1,845,315)	(1,845,315)
BALANCES AT DECEMBER 31, 2018	6,645,720	33,228,600	59,152,209	27,040,187	(3,711,046)	115,709,950
Capital Contribution	856,981	4,284,905	13,574,577	-	-	17,859,482
Net income	-	-	-	18,129,312	-	18,129,312
Other comprehensive income	-	-	-	-	2,127,481	2,127,481
BALANCES AT DECEMBER 31, 2019	**7,502,701**	**$ 37,513,505**	**$ 72,726,786**	**$ 45,169,499**	**$ (1,583,565)**	**$ 153,826,225**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,129,312	$ 12,940,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (Reversal of) loan losses	389,738	(4,042,777)
Gain on bargain purchase	(14,504,047)	-
Depreciation and amortization	969,249	912,445
Net amortization of discounts on investment securities available for sale	2,133,832	2,237,060
Net amortization of discounts on investment securities held to maturity	7,710	15,746
Gain on sales of investment securities avaiable for sale	(4,726,986)	(80,177)
Earnings on bank owned life insurance	(655,017)	(689,294)
Amortization of deferred loan fees	231,826	(179,860)
Amortization of intangible assets	6,429	-
Deferred income tax benefit	(1,645,711)	(242,896)
Changes in operating assets and liabilities:		
Accrued interest receivable	883,833	(893,553)
Prepaid expenses and other assets	4,986,387	(1,377,571)
Accrued interest payable	804,370	1,397,575
Accrued expenses and other liabilities	6,563,371	1,533,106
Due from clearing broker	(501,250)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,073,046	11,530,563
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(385,019,637)	(85,715,565)
Purchase of investment securities held to maturity	-	(5,000,000)
(Purchase) Reduction of Federal Home Loan Bank stock	(4,228,000)	122,300
Maturities and principal repayments on investment securities available for sale	27,300,814	31,575,856
Principal repayments on investment securities held to maturity	5,153,416	316,252
Proceeds from sales of investment securities available for sale	314,897,593	4,070,000
Purchase of bank owned life insurance	(12,000,000)	-
Net increase in loans	(65,522,480)	(126,785,385)
Cash received, net of cash paid from acquisition (Note 3)	69,555,607	-
Net purchase of property and equipment	(1,256,468)	(1,096,228)
NET CASH USED IN INVESTING ACTIVITIES	(51,119,155)	(182,512,770)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(39,818,014)	180,831,313
Net decrease in securities sold under agreements to repurchase	(366,945)	(234,460)
Net increase (decrease) in Federal Home Loan Bank advances	50,116,816	(5,000,000)
Capital contribution	17,859,482	11,906,362
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,791,339	187,503,215
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,254,770)	16,521,008
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	72,378,267	55,857,259
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 62,123,497**	**$ 72,378,267**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	**$ 16,038,112**	**$ 8,051,245**
Cash paid for income taxes	**$ 6,440,599**	**$ 2,633,872**

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

1. GENERAL

Banesco USA and subsidiaries (collectively the "Bank"), a state-chartered bank, incorporated in the State of Florida. The Bank operates in South Florida and Puerto Rico, having 7 offices in operation at December 31, 2019 and 5 offices in operation at December 31, 2018. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC"), is supervised and regulated by the Office of the Financial Regulation of the State of Florida and by the FDIC. The Bank acquired Brickell Bank and its subsidiaries on August 30, 2019. (Note 3)

As of December 31, 2019, the Bank owns 100% of Brickell Global Markets, Inc. ("BGM"), a registered broker-dealer, Tagide Properties, Inc ("Tagide"), a Florida corporation, Brickell Global Advisors ("BGA"), which serves as an investment adviser to customers of the Bank, and Brickell Global Insurance, Inc. ("BGI"), a provider of a range of comprehensive insurance solutions. The Bank intends to cease operations of BGM, BGA and BGI in 2020.

The Bank offers a variety of banking services to individual and corporate customers through its banking offices located in South Florida and Puerto Rico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The following is a summary of the significant accounting policies followed by the Bank.

The accounting policies and reporting practices of the Bank conform to the predominant practices in the banking industry and are based on U.S. GAAP.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the 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, determination of fair values of acquired assets and assumed liabilities, loss estimates related to acquired loans and foreclosed assets, valuation of deferred tax assets and the fair value of financial instruments.

Acquisitions

The Bank accounts for all business combinations under the acquisition method of accounting in accordance with Accounting Standard Codification ("ASC") Topic 805. Accordingly, the acquiring institution should recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in the acquiree, if any.

The Bank completed the stock purchase of Brickell Bank and its subsidiaries headquartered in Miami, Florida on August 30, 2019. The acquired assets and assumed liabilities of this transaction were measured at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for this transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquisitions (continued)

Management judgmentally stratified the loan portfolio based on similar risk characteristics and engaged and independent third party to estimate collateral values, calculate expected cash flows, and derive loss factors to measure fair values for loans. Management used quoted or current market prices to determine the fair value of investment securities, short term borrowings and long term obligations that were assumed in this transaction. (Note 3)

Intangible Assets

Intangible assets other than goodwill, which are determined to have finite lives, are amortized over the period benefited, generally five to fifteen years and are periodically reviewed for reasonableness. The recoverability of other intangibles is evaluated if events or circumstances indicate possible impairment. At December 31, 2019, intangible assets amounted $128,571 and are included in prepaid expenses and other assets on the accompanying consolidated balance sheets. There were no intangible assets at December 31, 2018.

Cash and Cash Equivalents

The Bank considers cash and cash equivalents with a maturity of three months or less from their original purchase date to be cash equivalents. Cash equivalents include cash and due from banks and interest bearing deposits in other financial institutions.

Restricted Cash

Rule 15c3-3 under the Securities Exchange Act of 1934 specifies certain conditions under which brokers and dealers carrying customer accounts are required to maintain cash in a special reserve bank account for the exclusive benefit of customers. Amounts to be maintained, if any, are computed in accordance with a formula defined in the rule.

At December 31, 2019, BGM had $426,741 in cash held in special reserve account for the exclusive benefit of customers. At December 31, 2018, the Bank did not hold restricted cash.

Investment Securities

Investment securities consist of U.S. government agencies issued securities, collateralized mortgage obligations, mortgage-backed securities, corporate bonds, and municipal securities. Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). As of December 31, 2019 and 2018, the Bank’s investment securities were all classified as available for sale, except for one U.S. government sponsored mortgage backed security which was classified as held to maturity in 2019 and one U.S. government sponsored mortgage backed security and one U.S. government agency security which were classified as held to maturity in 2018.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is a restricted asset, carried at cost, and evaluated for impairment. As of December 31, 2019 and 2018, FHLB stock amounted to $7,534,200 and $3,306,200, respectively.

Loans

The Bank's accounting methods for loans differ depending on whether the loans are originated or purchased, and for purchased loans, whether the loans were acquired as a result of a business combination or purchased individually or as a portfolio.

Legacy Loans and Leases

Loans are reported at their principal outstanding balance net of deferred loan fees or costs, unearned income and the allowance for loan losses. Loan origination and commitment fees and the costs associated with the origination of loans are deferred and amortized using the straight-line method over the term of the related loan. Interest income is generally recognized when income is earned using the simple interest or effective yield method.

In many lending transactions, collateral is obtained to provide an additional measure of security. Generally, the cash flow and earnings power of the borrower represent the primary source of repayment and collateral is considered as an additional safeguard on an acceptable credit risk. The need for collateral is determined on a case by case basis after considering the current and prospective creditworthiness of the borrower, terms of the lending transaction and economic conditions.

The Bank classifies all loans and leases past due when the payment of principal and interest, based upon contractual terms, is not made as of its due date. Charge offs on commercial loans are recorded when available information confirms the loan is not fully collectible and the loss is reasonably quantifiable. Consumer loans are subject to mandatory charge off at a specified delinquency date consistent with regulatory guidelines.

Purchased Loans:

Loans acquired in a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

The Bank considers substantially all loans acquired via FDIC assisted transactions to meet the criteria of loans acquired with evidence of impairment, unless the loan type is specifically excluded from the scope of Accounting Standard Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, such as loans with active revolver features or because management has minimal doubt of the collection of the loan. Loans acquired with evidence of impairment are classified as Purchased Credit Impaired ("PCI") loans.

The Bank makes an estimate of the loans' contractual principal and contractual interest payments as well as the total cash flows it expects to collect from the pools of loans, which includes undiscounted expected principal and interest. The excess of contractual amounts over the total cash flows expected to be collected from the loans is referred to as non-accretable difference, which is not accreted into income. The excess of the expected undiscounted cash flows over the fair value of the loans is referred to as accretable discount. Accretable discount is recognized as interest income on a level-yield basis over the life of the loans. Management has not included prepayment assumptions in its modeling of contractual or expected cash flows. The Bank continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows expected to be collected are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through allowance for loan losses. Gain on resolution of acquired assets represents the net settlement amount between the proceeds received and the carrying amount of the loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

Non-accrual Loans, Impaired Loans and Restructured Loans:

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, the loan has been restructured but is not meeting the terms of the restructure, or the loan reaches 90 days past due. All interest accrued but not collected for loans that are placed on non-accrual status or loans that are charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying to return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 non-accrual status, if applicable.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less selling costs, if the loan is collateral dependent. If management determines that the value of the impaired loan is less than the recorded investment in the loan (outstanding principal balance, net of previous charge-offs, and net of deferred loan fees or cost), 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 doubtful 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.

In situations where, due to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be granted, the loan is classified as a troubled debt restructuring ("TDR"). Management attempts to identify borrowers in financial difficulty early and work with them to modify terms before their loan reaches nonaccrual status. However, due to the complexity of modifying terms, many loans are modified after nonaccrual status has been established. The modified terms may include rate reductions, payment forbearance, principal forbearance, principal forgiveness and other actions intended to minimize the economic loss to the Bank and avoid foreclosure of the collateral. In cases where the borrowers are granted new terms that provide for a reduction of either interest or principal, management measures the impairment on the restructuring as detailed above for impaired loans.

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 and is included in the Bank's allowance for loan losses. These loans are excluded from pooled loss forecast and a separate reserve is provided under the accounting guidance for loan impairment. Residential loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL")

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 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.

In determining the balance of the allowance account, loans are pooled by portfolio segment and management evaluates the allowance for loan losses on each segment and as a whole on a regular basis to maintain the allowance at an adequate level based on factors which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include changes in prevailing economic conditions, historical experience, changes in the character and size of the loan portfolio and the overall credit worthiness of the borrowers.

The following is how management determines the balance of the general component for the allowance for loan losses account for each segment of the loans:

- Land and Land Development
- Real Estate Construction
- Commercial Real Estate Loans which includes Owner and Non-Owner Occupied and Multifamily loans
- Commercial and Industrial Loans which includes Working Capital Credit Lines, Asset Based Lending, Acceptances, Government Guaranteed, Trade Finance loans, Privately Insured Loans, Marketable Securities Secured Loans and Loans to Foreign Banks
- Residential Real Estate
- Consumer Loans

All loans are grouped by collateral type with similar risk characteristics and an average historical charge-off rate for the last twelve quarters is used. A loss factor is calculated and applied to the loan balance for each group.

Qualitative factors are applied to historical loss rate based on management's experience. Due to the static nature of the portfolio, the nine factors used are:

- Lending Policies and Procedures
- International, National, Regional, and Local Economic Conditions
- Nature or Volume of the Portfolio and Terms of Loans
- Experience, Ability, and Depth of Lending and Credit Management
- Levels and trends in delinquencies, non-accruals, and Risk Rating
- Quality of Loan Review System
- Value of Underlying Collateral
- Existences and Effect of Credit Concentrations
- Other External Consequences

The adjusted loss rates are applied to the outstanding balances of each loan grouping.

Changes in these factors could result in material adjustments to the allowance for loan losses and provision for loan losses. The losses the Bank may ultimately incur could differ materially from the amounts assumed in arriving at the allowance for loan losses.

The Bank provides for loan losses through a provision for loan losses charged to operations. When management believes that a loan balance is uncollectible, the loan balance is charged against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance for loan losses.

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 the Bank applies the same adjusted loss rates as those applied to similar loan pools in calculating the overall allowance for loan losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (“ALL”) (continued)

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 consolidated statements of operations. At December 31, 2019 and 2018, the allowance for unfunded lending commitments amounts to $1,296,821 and $962,545, respectively, and is included in other liabilities, on the accompanying consolidated balance sheets.

Also, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

For PCI loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from PCI loans reflect a decrease in those estimates. The Bank reassesses cash flows on its loan portfolio based on current circumstances and events. Occasionally, external factors non-controllable by the Bank could result in cash flows not performing in line with expectations. If a pool of loans has paid in excess of its carrying value and management considers that the information on the pool is such that it can no longer estimate an expectation of cash flows in a manner that is reliable, the Bank discontinues the accrual of income on that portfolio and recognizes income on a cash basis based on the payments of interest for the pool. A gain is recognized for the amount of excess cash collected on the pool when all loans in the pool have been disposed of.

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to PCI loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

Risk grading:

The grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreement as scheduled or at all. The Bank’s internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades for classified loans are refreshed each quarter, and pass grades are done annually.

The Bank’s internally assigned grades are as follows:

Pass – Loans indicate different levels of satisfactory financial condition and performance.
Special Mention – Loans are exhibiting potential weaknesses deserving management’s close attention.
Substandard – Loans are exhibiting well-defined weaknesses that jeopardize repayment of the debt.
Doubtful – Loans where the possibility of loss is extremely high.
Loss – Loans are considered uncollectible.

Interest Income

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

Property and Equipment, Net

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net (continued)

amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Estimated useful lives of these assets are as follows:

Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of life or term of lease

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When items are retired or are otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to income.

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs 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. At December 31, 2019 and December 31, 2018, the Bank did not hold foreclosed assets.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities (NOTE 9).

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 basis 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 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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising Costs are expensed as incurred. At December 31, 2019 and 2018, advertising costs amounted to $526,532 and $519,493, respectively.

Interest Rate Risk

The Bank's performance is dependent to a large extent on its net interest income, which is the difference between interest income on interest-earning assets and 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 implemented asset and liability management strategies to mitigate the impact to net interest income resulting from changes in market interest rates.

Concentration 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.

Most of the Bank's business activity is with customers located within its primary market area, which includes Miami-Dade, Broward, Palm Beach and Monroe Counties, Florida and the entire Commonwealth of Puerto Rico. The Bank's loan portfolio is concentrated largely in real estate and commercial loans in South Florida. Circumstances, which negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

At various times during the year, the Bank has maintained deposits with other financial institutions in excess of amounts received. The exposure to the Bank from these transactions is solely dependent upon daily balances and the financial strength of the respective institution.

Risk and Uncertainties

The potential effects of the 2019 novel coronavirus (or "COVID-19") outbreak on international trade (including supply chains and export levels), travel, employee productivity and other economic activities, and concerns regarding the extent that COVID-19 may spread, may have a destabilizing effect on financial markets and economic activity and may increasingly affect international trade (including supply chains and export levels), travel, employee productivity and other economic activities. COVID-19 has the potential to negatively impact the Bank's and its customers' costs and demand for the their and service. 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 policymaking 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. Uncertainties also have arisen regarding the potential for a reversal or renegotiation of international trade agreements and the impact such actions and other policies the current administration may have on economic and market conditions. In addition, the potential for the spread of the virus may result in the closure of our branch offices or 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. There has been a significant reduction in the valuation of the equity, fixed-income and commodity markets and a significant increase in the volatility of those markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties (continued)

Such market instability may hinder future U.S. economic growth, which could adversely affect our 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. Until the pandemic subsides, the Bank might experience client defaults, including defaults in unsecured loans, that will significant impact the Bank's allowance for loan losses estimate.

COVID-19 and similar events and disputes, domestic and international, have adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1.00% on March 15, 2020. Such events also may adversely affect business and consumer confidence, generally, and the Bank and its customers, and their respective suppliers, vendors and processors may also be adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 100 basis points to a target range of 0.00% to 0.25%, and the Federal Reserve has announced it will purchase U.S. Treasury bills into the second quarter of 2020, conduct overnight repurchase agreement operations at least through April 2020, and continue to reinvest principal received on the Federal Reserve's securities portfolio. The Federal Reserve has also reduced the interest it pays on excess reserves from 1.10% to 0.10%. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Bank's financial condition and results of operations.

The FDIC, the Board of Governors of the Federal Reserve System (FRB), 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. Presently, the Interagency statement from the regulators doesn't present a concern for the banks. If the loan was performing as of the national emergency declaration date declared by the President of the United States (March 13, 2020) for which payments get deferred, the loan will not be treated as non-performing loans or considered TDR's. Therefore accrual of interest remains the same. In addition, the Small Business Administration Loans ("SBA Loans") offered by banks as a part of the regulatory assistance packages are fully guaranteed by the US government.

Comprehensive Income

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

In February 2018, the Financial Accounting Standards Board issued an accounting standard to allow a reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting for the enactment of the Tax Act. The update is effective for annual periods beginning after December 15, 2018 and interim periods within those years. As permitted by the FASB, the Bank has elected to early adopt this accounting standard update and apply it to the financial statements for the period ended December 31, 2017. The effect of early implementation is further described in Note 11.

Fair Value Measurement

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 April 27, 2020 which is the date the consolidated financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the financial results of the Bank. During Q1 2020 the Bank has begun evaluating the potential financial impact the COVID-19 coronavirus may have on the Bank. The potential financial impact is unknown at this time. The Bank intends to cease operations of BGM, BGA and BGI in 2020.

Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards 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 indicated 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 adopted the provisions of ASC 606 effective January 1, 2019, utilizing the modified retrospective transition method for all contracts with customers, which included applying the provisions of ASC 606 beginning January 1, 2019, to all contracts not completed as of that date.

For each revenue contract type, the Bank conducted a formal contract review process to evaluate the impact of ASC 606. As a result of the adoption of ASC 606, there are no changes to the timing of the Bank's revenue recognition or differences in the presentation in the consolidated financial statements from those under the previous revenue standard. There was no cumulative effect adjustment to stockholder's equity upon initially applying ASC 606 for periods prior to January 1, 2019. (See Note 19)

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard update which seeks to enhance the recognition, measurement, presentation and disclosure requirements of financial instruments. 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 adoption of this accounting standard update did not have a material impact on the Bank's consolidated financial statements.

Restricted Cash

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this accounting standard update did not have a material impact on the Bank's consolidated financial statements.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued an accounting standards update 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 adoption of this accounting standard update did not have a material impact on the Bank's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued an accounting standard update 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 US Generally Accepted Accounting Principles ("GAAP"). The Bank is currently evaluating the effect the update will have on its consolidated financial statements but expects upon adoption that the update will have a material effect on the Bank's balance sheet 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 income statement or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted. The Bank is currently evaluating the effect the update will have on its consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an accounting standards update 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 consolidated 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. The Bank is currently evaluating the effect the update will have on its consolidated financial statements.

Fair Value Measurement

In August 2018, the FASB issued an accounting standards update 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 effect the update will have on its consolidated financial statements.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued an accounting standards update 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 consolidated financial statements.

Reclassification

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

3. BRICKELL BANK ACQUISITION

On August 31, 2019, Banesco USA completed the stock purchase of Brickell Bank. Brickell Bank operated one branch located in Miami Florida.

The acquisition of Brickell Bank was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. The Bank recognized a bargain purchase price on this transaction of $14,504,047. The bargain purchase price is calculated based on the fair values of the assets acquired and liabilities assumed as of the acquisition date. Fair value estimates are based on the information available,and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available.

The following table presents the assets acquired and liabilities assumed, as recorded by Brickell Bank on the acquisition date and adjusted for purchase accounting adjustments.

	August 30, 2019			
	As Recorded by Brickell Bank	Fair Value Asjustments		As Recorded by Banesco USA
Assets:				
Cash and due from banks	$ 77,556,172	$ -		$ 77,556,172
Investments securities, at fair value	865,133	-		865,133
Loans	319,818,925	(3,211,689)	a	316,607,236
Intangible assets	-	135,000	b	135,000
Deferred tax assets	-	2,812,797	c	2,812,797
Premises and equipment	1,796,633	(47,115)	d	1,749,518
Accrued interest receivable	2,271,243	-		2,271,243
Other Assets	6,618,133	(136,827)	e	6,481,306
Total Assets	$ 408,926,239	$ (447,834)		$ 408,478,405
Liabilities:				
Deposits				
Noninterest-bearing	$ 66,293,991	$ -		$ 66,293,991
Interest-bearing	280,596,420	(1,476,343)	f	279,120,077
Total deposits	346,890,411	(1,476,343)		345,414,068
FHLB Borrowings	35,000,000	(116,816)	g	34,883,184
Other liabilities	5,091,634	584,905	h	5,676,539
Total liabilites	$ 386,982,045	$ (1,008,254)		$ 385,973,791
Bargain Purchase Gain Reconciliation:				
Equity	21,944,192			$ 21,944,192
Aggregate Fair Value Adjustement		560,420		$ 560,420
Purchase Price				$ (8,000,565)
Bargain Purchase Gain on Acquisition of Brickell Bank				**$ 14,504,047**

3. BRICKELL BANK ACQUISITION (CONTINUED)

Explanation of fair value adjustments:

a - Adjustment reflects the fair value adjustment based on Banesco USA's evaluation of the acquired loan portfolio.

b - Adjustment reflects the core deposit intangible on demand deposits acquired as of the acquisition date.

c - Adjustment reflects a deferred tax benefit due to accumulated Net Operating Losses and tax impact on other fair value adjustments as of the acquisition date.

d - Adjustment reflects the fair value adjustment on acquired premises and equipment.

e - Adjustment reflects the fair value adjustment on acquired prepaid assets.

f - Adjustment reflects the fair value of time deposits acquired as of the acquisition date.

g - Adjustment reflects the fair value of FHLB advances acquired as of the acquisition date.

h - Adjustment reflect the fair value adjustment of other liabilities.

Results of operations for Brickell Bank prior to the acquisition date are not included in the consolidated statement of operations. Due to the significant amount of fair value adjustments and the resulting accretion of those fair value adjustments, historical results of Brickell Bank are not relevant to Banesco USA's results of operations. Therefore, no pro forma information is presented.

Accounting standards prohibit carrying over an allowance for loan losses on acquired loans. However, the fair value adjustments recorded on the loan portfolio at the date of the acquisition take into consideration estimated losses inherent in the portfolio.

4. INVESTMENT SECURITIES

Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities available for sale, by major security, as of December 31, 2019 and 2018 are as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 43,686,604	$ -	$ (746,873)	$ 42,939,731
Collateralized mortgage obligations	8,485,581	-	(161,860)	8,323,721
Mortgage-backed securities	206,858,694	63,370	(1,207,881)	205,714,183
Municipals	1,642,781	30,749	-	1,673,530
Corporate bonds	5,054,604	-	(98,824)	4,955,780
	$ 265,728,264	**$ 94,119**	**$ (2,215,438)**	**$ 263,606,945**

	December 31, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 66,425,338	$ 164,760	$ (969,860)	$ 65,620,238
Collateralized mortgage obligations	11,635,830	277,660	(107,118)	11,806,372
Mortgage-backed securities	95,386,687	11,963	(3,241,376)	92,157,274
Municipals	11,255,778	31,586	(342,164)	10,945,200
Corporate bonds	34,745,111	8,133	(804,843)	33,948,401
	$ 219,448,744	**$ 494,102**	**$ (5,465,361)**	**$ 214,477,485**

Investment securities pledged to secure borrowings under securities sold under agreements to repurchase had a fair value of approximately $3,158,000 and $3,685,000 at December 31, 2019 and 2018, respectively.

Proceeds from the sales of investment securities available for sale for the years ended December 31, 2019 and 2018 amounted to $314,897,593 and $4,070,000, respectively. For the years ended December 31, 2019 and 2018, there were net gains of $4,726,986 and $80,177, respectively.

4. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

Expected maturities of securities available for sale will differ from contractual maturities because borrowers have the right to call or repay obligations with or without call or repayment penalties. The amortized cost and fair value of securities available for sale by contractual maturity are as follows, as of December 31:

	2019 Securities Available for Sale	
	Amortized Cost	Fair Value
Due after one year through five years	$ 3,634,733	$ 3,608,689
Due after five years through ten years	44,956,041	44,170,517
Due after ten years	217,137,490	215,827,739
	$ 265,728,264	**$ 263,606,945**

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

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2019						
U.S. government agencies issued securities	$ 13,900,239	$ (114,381)	$ 29,039,493	$ (632,492)	$ 42,939,732	$ (746,873)
Collateralized mortgage obligations	6,655,324	(133,851)	1,668,396	(28,009)	8,323,720	(161,860)
Mortgage-backed securities	126,920,371	(959,883)	35,553,912	(247,998)	162,474,283	(1,207,881)
Municipals	-	-	-	-	-	-
Corporate bonds	-	-	4,955,780	(98,824)	4,955,780	(98,824)
	$ 147,475,934	**$ (1,208,115)**	**$ 71,217,581**	**$ (1,007,323)**	**$ 218,693,515**	**$ (2,215,438)**

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2018						
U.S. government agencies issued securities	$ 17,495,392	$ (113,159)	$ 36,773,068	$ (856,701)	$ 54,268,460	$ (969,860)
Collateralized mortgage obligations	-	-	2,010,508	(107,118)	2,010,508	(107,118)
Mortgage-backed securities	9,320,389	(70,331)	78,220,844	(3,171,045)	87,541,233	(3,241,376)
Municipals	-	-	9,009,434	(342,164)	9,009,434	(342,164)
Corporate bonds	28,980,915	(614,636)	4,153,030	(190,207)	33,133,945	(804,843)
	$ 55,796,696	**$ (798,126)**	**$ 130,166,884**	**$ (4,667,235)**	**$ 185,963,580**	**$ (5,465,361)**

The Bank is proactive in determining what possible negative effects could impact their investment portfolio. The Bank performs assessments to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. Management considers many factors in their analysis including the (1) severity and duration of the impairment, (2) the specific credit rating of the security, (3) the intent and ability to hold these securities for a period of time until the value of the security recovers, (4) whether the current market is considered an inactive market where most sales are considered distressed sales or disorderly transactions, and most importantly (5) management estimates the portion of loss attributable to credit using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates. Based on the expected cash flows derived from the model, the Bank expects to recover the remaining unrealized losses on the securities.

4. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

At December 31, 2019, the Bank had $1,207,881 in unrealized losses relating to forty-nine mortgage-backed securities. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of mortgage backed securities to fluctuate unsteadily. The contractual cash flows of these securities are from U.S. government sponsored agencies. As of December 31, 2019, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2019, the Bank $908,722 in unrealized losses relating to thirty-seven U.S. government agencies issued securities and collateralized mortgage obligations. The losses relate principally to interest rate changes, credit spread widening and reduced liquidity in applicable markets. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, other-than-temporary impairments may occur in future periods. The contractual cash flows of these securities are guaranteed by an agency of the U.S. government. As of December 31, 2019, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2019, the Bank had $98,824 in unrealized loss relating to two corporate bonds. As of December 31, 2019, the Bank does not consider the corporate bonds to be other-than-temporarily impaired because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

Held to Maturity

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities held to maturity, by major security, as of December 31, 2019 and 2018 are as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government sponsored mortgage-backed securities	$ 546,518	$ 1,325	$ -	547,843
	$ 546,518	**$ 1,325**	**$ -**	**$ 547,843**

	December 31, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government agencies issued securities	$ 5,000,000	$ 8,700	$ -	$ 5,008,700
U.S. government sponsored mortgage-backed securities	707,645	-	(30,483)	677,162
	$ 5,707,645	**$ 8,700**	**$ (30,483)**	**$ 5,685,862**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans outstanding as of December 31:

(1) Purchase Non-Credit Impaired Loans (“PNCI), shown at carrying value;
(2) Purchased Credit Impaired Loans (“PCI”), shown at carrying value.

	2019					2018
	Legacy Loans	PNCI (1)	Total Loans	PCI (2)	Grand Total	
Land and land development	$ 2,190,874	$ -	$ 2,190,874	$ -	$ 2,190,874	$ 3,069,039
Real estate construction	77,687,794	-	77,687,794	-	77,687,794	77,617,668
Residential real estate	117,111,953	222,370,283	339,482,236	8,101,954	347,584,190	111,661,322
Commercial real estate	650,563,065	19,260,403	669,823,468	2,680,595	672,504,063	602,765,078
Commercial and Industrial	211,773,863	24,795,687	236,569,550	3,164,568	239,734,118	161,764,519
Consumer	831,218	-	831,218	-	831,218	545,324
	1,060,158,767	266,426,373	1,326,585,140	13,947,117	1,340,532,257	957,422,950
Less:						
Allowance for loan and lease losses	(11,946,683)	-	(11,946,683)	-	(11,946,683)	(10,587,716)
Deferred loan fees/unamortized discount	(684,486)	-	(684,486)	-	(684,486)	(441,372)
Net Loans	**$ 1,047,527,598**	**$ 266,426,373**	**$ 1,313,953,971**	**$ 13,947,117**	**$ 1,327,901,088**	**$ 946,393,862**

A reconciliation of the recorded investment in loans, is as follows:

	2019	2018
Gross loans	$ 1,340,532,257	$ 957,422,950
Plus: Accured interest receivable	4,240,697	2,642,750
Less: Unearned income	684,486	441,371
Recorded investments in loans	**$ 1,344,088,468**	**$ 959,624,329**

The Bank has pledged approximately $241,375,000 and $222,024,000 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2019 and 2018, respectively.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented the loans in the portfolio by product type. Loans are segmented into the following pools: land and land development, real estate construction, residential real estate, commercial real estate, commercial and industrial and consumer.

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 $11,946,683 and $10,587,716 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2019 and 2018, respectively.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

(1) Purchase Non-Credit Impaired Loans; (2) Purchased Credit Impaired Loans

The following table summarizes the Bank's loans acquired during 2019, the contractually required payments receivable, cash flows expected to be collected, and fair value at the acquisition date, August 30, 2019.

	PCI			PNCI	At Acquistion Total Portfolio
	Carrying Value Closing Balance	Additional Contractual Cash Flows	Total Contractual Cash Flows	Carrying Value Closing Balance	
Real Estate					
1-4 single family residential	$ 8,129,038	$ 5,460,978	$ 13,590,016	$ 230,000,773	$ 243,590,789
Commercial real estate	-	-	-	19,293,184	19,293,184
Total real estate	8,129,038	5,460,978	13,590,016	249,293,957	262,883,973
Other Loans					
Commercial and industrial	8,069,323	569,727	8,639,050	55,815,584	64,454,633
Consumer loans	-	-	-	249	249
Total other loans	8,069,323	569,727	8,639,050	55,815,833	64,454,883
Subtotal	$ 16,198,361	$ 6,030,705	22,229,066	305,109,790	327,338,855
Non-accretable difference			(6,030,705)	-	(6,030,705)
Subtotal			16,198,361	305,109,790	321,308,150
Accretable discount			(2,094,359)	(2,606,556)	(4,700,914)
Fair value			**$ 14,104,002**	**$ 302,503,234**	**$ 316,607,236**

The following table summarizes the Bank's loans acquired during 2019, the outstanding balance and related carrying amount at the acquisition date, August 30, 2019:

	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 8,129,038	$ 7,108,940	$ 230,000,773	$ 227,824,507	$ 238,129,811	$ 234,933,447
Commercial real estate	-	-	19,293,184	19,404,039	19,293,184	19,404,039
Total real estate	$ 8,129,038	$ 7,108,940	$ 249,293,957	$ 247,228,546	$ 257,422,995	$ 254,337,486
Other Loans						
Commercial and Industrial	$ 8,069,323	$ 6,995,062	$ 55,815,584	$ 55,274,443	$ 63,884,907	$ 62,269,505
Consumer	-	-	249	245	249	245
Total other loans	$ 8,069,323	$ 6,995,062	$ 55,815,833	$ 55,274,688	$ 63,885,156	$ 62,269,750
Total loans	$ 16,198,361	$ 14,104,002	$ 305,109,790	$ 302,503,234	$ 321,308,151	$ 316,607,236

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables summarize the Bank's loans acquired during 2012 and 2019, the outstanding balance and related carrying amount as of December 31, 2019 and 2018.

	December 31, 2019					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 10,266,477	$ 8,101,954	$ 224,348,715	$ 222,370,283	$ 234,615,192	$ 230,472,237
Commercial real estate	3,250,325	2,680,595	19,163,539	19,260,403	22,413,864	21,940,998
Total real estate	$ 13,516,802	$ 10,782,549	$ 243,512,254	$ 241,630,686	$ 257,029,056	$ 252,413,235
Other Loans						
Commercial and Industrial	$ 3,323,634	$ 3,164,568	$ 24,848,618	$ 24,795,687	$ 28,172,252	$ 27,960,255
Total other loans	3,323,634	3,164,568	24,848,618	24,795,687	28,172,252	27,960,255
Total loans	$ 16,840,436	$ 13,947,117	$ 268,360,872	$ 266,426,373	$ 285,201,308	$ 280,373,490

	December 31, 2018					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 4,007,203	$ 2,494,726	$ 641,801	$ 585,212	$ 4,649,004	$ 3,079,938
Commercial real estate	3,743,803	3,062,902	215,143	215,143	3,958,946	3,278,045
Total real estate	$ 7,751,006	$ 5,557,628	$ 856,944	$ 800,355	$ 8,607,950	$ 6,357,983

The following table summarizes the Bank's amount of accretable yield discount at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from "non-accretable difference" as of December 31, 2019:

	PCI	PNCI	Total
Balance at December 31, 2018	$ 4,664,194	$ 56,589	$ 4,720,783
Accretable discount arising from acquisition of PCI loans	2,131,347	2,606,556	4,737,903
Accretion during the period	(1,032,220)	(723,241)	(1,755,461)
Reclassification from non-accretable difference	243,925	-	243,925
Loan resolution	(512,765)	(5,405)	(518,170)
Balance as of December 31, 2019	**$ 5,494,481**	**$ 1,934,499**	**$ 7,428,980**

The following table summarizes the allowance for loan losses associated with PCI loans as of as of December 31:

	2019	2018
Beginning Balance	$ 15,324	$ 21,173
(Reversal of) Provision for loan losses	(15,324)	(5,849)
Ending Balance at December 31,	**$ -**	**$ 15,324**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Changes in the allowance for loan losses and the outstanding balances in Legacy and PNCI loans are follows for:

For the Year Ended December 31, 2019

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 21,932	$ 912,651	$ 61,669	$ 7,830,485	$ 1,745,655	$ -	$ -	$ 10,572,392
(Reversal of) provision for loan losses	(10,261)	(131,885)	160,889	510,055	(168,527)	10,993	33,798	405,062
Recoveries	-	-	3,155	-	1,321,528	-	-	1,324,683
Chargeoffs	-	-	-	-	(355,454)	-	-	(355,454)
Ending Balance	**$ 11,671**	**$ 780,766**	**$ 225,713**	**$ 8,340,540**	**$ 2,543,202**	**$ 10,993**	**$ 33,798**	**$ 11,946,683**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 64,444	$ 251,050	$ 572,529	$ 9,908	$ -	$ 897,931
Ending balance: collectively evaluated for impairment	$ 11,671	$ 780,766	$ 161,269	$ 8,089,490	$ 1,970,673	$ 1,085	$ 33,798	$ 11,048,752
Loans:								
Ending balance	**$ 2,190,874**	**$ 77,687,794**	**$ 339,482,236**	**$ 669,823,468**	**$ 236,569,550**	**$ 831,218**	**$ -**	**$ 1,326,585,140**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 8,266,001	$ 8,547,811	$ 6,576,283	$ 10,884	$ -	$ 23,400,979
Ending balance: collectively evaluated for impairment	$ 2,190,874	$ 77,687,794	$ 331,216,235	$ 661,275,657	$ 229,993,267	$ 820,334	$ -	$ 1,303,184,161

For the Year Ended December 31, 2018

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 31,363	$ 994,104	$ 188,994	$ 6,028,502	$ 2,278,147	$ 88	$ 144,749	$ 9,665,947
Provision for(reversal of) loan losses	(9,431)	(134,364)	(414,632)	1,801,983	(5,140,937)	5,202	(144,749)	(4,036,928)
Recoveries	-	52,911	287,307	-	5,000,000	-	-	5,340,218
Chargeoffs	-	-	-	-	(391,555)	(5,290)	-	(396,845)
Ending Balance	**$ 21,932**	**$ 912,651**	**$ 61,669**	**$ 7,830,485**	**$ 1,745,655**	**$ -**	**$ -**	**$ 10,572,392**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 49,404	$ 90,982	$ -	$ -	$ -	$ 140,386
Ending balance: collectively evaluated for impairment	$ 21,932	$ 912,651	$ 12,265	$ 7,739,503	$ 1,745,655	$ -	$ -	$ 10,432,006
Loans:								
Ending balance	**$ 3,069,039**	**$ 77,617,668**	**$ 109,166,596**	**$ 599,702,176**	**$ 161,764,519**	**$ 545,324**	**$ -**	**$ 951,865,322**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 5,468,277	$ 2,547,252	$ 566,217	$ -	$ -	$ 8,581,746
Ending balance: collectively evaluated for impairment	$ 3,069,039	$ 77,617,668	$ 103,698,319	$ 597,154,924	$ 161,198,302	$ 545,324	$ -	$ 943,283,576

The loan recoveries in 2019 and 2018 of $1,250,000 and $5,000,000, respectively, were mainly related to one commercial and industrial loan which was charged-off in 2017 due to an isolated borrower and not due to weaknesses of a particular industry or due to economic conditions.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

During the year ended December 31, 2019, the provision for loan losses amounted to $389,738 and is comprised of $405,062 for legacy and PNCI loans and a reversal of provision $15,324 for PCI loans. During the year ended December 31, 2018, there was a reversal of provision for loan losses of $4,042,777 and is comprised of $4,036,928 for legacy and PNCI loans and $5,849 for PCI loans.

Legacy and PNCI loan credit exposures by internally assigned grades are as follows:

December 31, 2019		Special		
Land and land development and real estate construction	Pass	Mention	Substandard	Total
Land and land development	$ 308,907	$ 1,881,967	$ -	$ 2,190,874
Real estate construction	77,687,794	-	-	77,687,794
Residential real estate				
1-4 family first lien	329,928,381	450,423	8,062,439	338,441,243
1-4 family second lien	1,040,993	-	-	1,040,993
Commercial real estate				
Commercial real estate term	537,063,151	4,695,447	823,317	542,581,915
Owner occupied commercial real estate	117,057,774	2,459,285	7,724,494	127,241,553
Commercial and industrial	227,765,182	2,223,604	6,580,764	236,569,550
Consumer	820,334	-	10,884	831,218
Total loans	**$ 1,291,672,516**	**$ 11,710,726**	**$ 23,201,898**	**$ 1,326,585,140**

December 31, 2018		Special		
Land and land development and real estate construction	Pass	Mention	Substandard	Total
Land and land development	$ 3,069,039	$ -	$ -	$ 3,069,039
Real estate construction	77,617,668	-	-	77,617,668
Residential real estate				
1-4 family first lien	100,499,156	134,081	5,330,219	105,963,456
1-4 family second lien	3,203,140	-	-	3,203,140
Commercial real estate				
Commercial real estate term	475,248,526	3,188,337	1,017,792	479,454,655
Owner occupied commercial real estate	111,750,509	7,482,682	1,014,330	120,247,521
Commercial and industrial	158,870,315	2,327,987	566,217	161,764,519
Consumer	545,324	-	-	545,324
Total loans	**$ 930,803,677**	**$ 13,133,087**	**$ 7,928,558**	**$ 951,865,322**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Performing and nonperforming Legacy and PNCI loans based on payment activity are as follows:

December 31, 2019

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 2,190,874	$ -	$ 2,190,874
Real estate construction	77,687,794	-	77,687,794
Residential real estate			
1-4 family first lien	338,067,393	373,850	338,441,243
1-4 family second lien	1,040,993	-	1,040,993
Commercial real estate			
Commercial real estate term	542,581,915	-	542,581,915
Owner occupied commercial real estate	126,267,120	974,433	127,241,553
Commercial and industrial	231,385,859	5,183,691	236,569,550
Other Loans			
Consumer	831,218	-	831,218
Total loans	**$ 1,320,053,166**	**$ 6,531,974**	**$ 1,326,585,140**

December 31, 2018

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 3,069,039	$ -	$ 3,069,039
Real estate construction	77,617,668	-	77,617,668
Residential real estate			
1-4 family first lien	104,240,303	1,723,153	105,963,456
1-4 family second lien	3,203,140	-	3,203,140
Commercial real estate			
Commercial real estate term	479,454,655	-	479,454,655
Owner occupied commercial real estate	120,247,521	-	120,247,521
Commercial and industrial	161,736,284	28,235	161,764,519
Other Loans			
Consumer	545,324	-	545,324
Total loans	**$ 950,113,934**	**$ 1,751,388**	**$ 951,865,322**

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced financial difficulties.

Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when the loan is greater than 90 days delinquent. Certain TDR's that are greater than 90 days past due are considered performing, based on their adherence with their modified terms.

Nonperforming loans, non-accrual loans and 90 days or more past due loans represent 0.49% and 0.25% of total loans as of December 31, 2019 and 2018, respectively.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables includes an aging analysis of the outstanding balances of past due Legacy and PNCI loans as of December 31, 2019 and 2018. Certain loans over 90 days or more past due with interest and principal are still accruing.

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ -	$ -	$ -	$ 2,190,874	$ 2,190,874	$ -
Real estate construction	-	-	-	77,687,794	77,687,794	-
Residential real estate						
1-4 family first lien	10,100,338	430,617	10,530,955	327,910,288	338,441,243	-
1-4 family second lien	-	-	-	1,040,993	1,040,993	-
Commercial real estate						
Commercial real estate term	298,713	-	298,713	542,283,202	542,581,915	-
Owner occupied commercial real estate	-	974,433	974,433	126,267,120	127,241,553	-
Commercial and industrial	845,010	5,094,869	5,939,879	230,629,671	236,569,550	-
Other Loans						
Consumer	-	-	-	831,218	831,218	-
Total loans	**$ 11,244,061**	**$ 6,499,919**	**$ 17,743,980**	**$ 1,308,841,160**	**$ 1,326,585,140**	**$ -**

As of December 31, 2018

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ -	$ -	$ -	$ 3,069,039	$ 3,069,039	$ -
Real estate construction	-	-	-	77,617,668	77,617,668	-
Residential real estate						
1-4 family first lien	-	1,310,197	1,310,197	104,653,259	105,963,456	-
1-4 family second lien	-	-	-	3,203,140	3,203,140	-
Commercial real estate						
Commercial real estate term	-	-	-	479,454,655	479,454,655	-
Owner occupied commercial real estate	1,517,420	-	1,517,420	118,730,101	120,247,521	-
Commercial and industrial	91,909	-	91,909	161,672,610	161,764,519	-
Other Loans						
Consumer	-	-	-	545,324	545,324	-
Total loans	**$ 1,609,329**	**$ 1,310,197**	**$ 2,919,526**	**$ 948,945,796**	**$ 951,865,322**	**$ -**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table includes the recorded investment and unpaid principal balances for impaired Legacy loans with the associated allowance amount, if applicable. Management determined the specific valuation allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific valuation allowance recorded.

Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

December 31, 2019

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
1-4 family first lien	$ 7,991,387	$ 7,962,985	$ -	$ 10,080,430	$ 29,914
Commercial real estate term	-	-	-	-	-
Owner occupied commercial real estate	7,726,621	7,724,494	-	7,790,289	18,999
Commercial and industrial	1,429,013	2,108,706	-	1,584,235	28,618
Consumer	-	-	-	-	-
Total	**$ 17,147,021**	**$ 17,796,185**	**$ -**	**$ 19,454,954**	**$ 77,531**
With an allowance recorded:					
1-4 family first lien	$ 304,228	$ 303,016	$ 64,444	$ 305,547	$ 1,212
Commercial real estate term	826,510	823,317	251,050	836,332	3,193
Owner occupied commercial real estate	-	-	-	-	-
Commercial and industrial	576,928	4,467,577	572,529	781,016	149
Consumer	10,912	10,884	9,908	21,351	28
Total	**$ 1,718,578**	**$ 5,604,794**	**$ 897,931**	**$ 1,944,246**	**$ 4,582**
Impaired Loans by Class Total					
1-4 family first lien	$ 8,295,615	$ 8,266,001	$ 64,444	$ 10,385,977	$ 31,126
Commercial real estate term	826,510	823,317	251,050	836,332	3,193
Owner occupied commercial real estate	7,726,621	7,724,494	-	7,790,289	18,999
Commercial and industrial	2,005,941	6,576,283	572,529	2,365,251	28,767
Consumer	10,912	10,884	9,908	21,351	28
Total loans	**$ 18,865,599**	**$ 23,400,979**	**$ 897,931**	**$ 21,399,200**	**$ 82,113**

December 31, 2018

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Real estate construction	$ -	$ -	$ -	$ 99,054	$ 13,216
1-4 family first lien	5,342,554	5,334,195	-	2,665,669	220,878
Commercial real estate term	821,714	1,014,330	-	68,476	55,288
Owner occupied commercial real estate	-	-	-	406,725	70,905
Commercial and industrial	561,845	566,217	-	530,105	42,448
Total	**$ 6,726,113**	**$ 6,914,742**	**$ -**	**$ 3,770,029**	**$ 402,735**
With an allowance recorded:					
Land and land development	$ -	$ -	$ -	$ 34,710	$ 2,062
1-4 family first lien	134,497	134,081	49,404	135,626	5,419
Commercial real estate term	1,538,404	1,532,921	90,982	1,772,016	84,367
Commercial and industrial	-	-	-	163,237	10,203
Total	**$ 1,672,901**	**$ 1,667,002**	**$ 140,386**	**$ 2,105,589**	**$ 102,051**
Impaired Loans by Class Total					
Land and land development	$ -	$ -	$ -	$ 34,710	$ 2,062
Real estate construction	-	-	-	99,054	13,216
1-4 family first lien	5,477,051	5,468,277	49,404	2,801,295	226,297
Commercial real estate	2,360,118	2,547,252	90,982	2,247,217	210,560
Commercial and industrial	561,845	566,217	-	693,342	52,651
Total loans	**$ 8,399,014**	**$ 8,581,746**	**$ 140,386**	**$ 5,875,618**	**$ 504,786**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Legacy and PNCI loans on non-accrual status by loan segment are as follows:

	December 31, 2019	December 31, 2018
Residential real estate		
1-4 family first lien	$ 373,850	$ 1,723,153
Commercial real estate		
Owner occupied	974,433	-
Commercial and industrial	5,183,691	28,235
Total loans	**$ 6,531,974**	**$ 1,751,388**

The following tables present troubled debt restructurings as of December 31, 2019 and 2018:

2019	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Residential real estate			
1-4 family first lien	$ 131,442	$ -	$ 131,442
Commercial real estate			
Commercial real estate term	823,317	-	823,317
Owner occupied commercial real estate	416,850	77,205	494,055
Total	**$ 1,371,609**	**$ 77,205**	**$ 1,448,814**

2018	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Residential real estate			
1-4 family first lien	$ 134,081	$ -	$ 134,081
Commercial real estate			
Commercial real estate term	1,358,844	-	1,358,844
Owner occupied commercial real estate	446,073	-	446,073
Total	**$ 1,938,998**	**$ -**	**$ 1,938,998**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables presents newly restructured Legacy and PNCI loans that occurred during the years ended December 31, 2019 and December 31, 2018.

2019	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial and Industrial	**1**	**$ 77,205**	**$ 77,205**

2018	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial and Industrial	**1**	**$ 454,323**	**$ 454,323**

As of December 31, 2019 and 2018, there were no troubled debt restructuring loans in which a concession was made and the loan re-defaulted during the same year.

As of December 31, 2019 and 2018, there were no commitments to lend additional funds to borrowers with an impaired loan.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, is summarized as follows at December 31:

	2019	**2018**
Leasehold improvements	$ 5,349,298	$ 4,241,841
Furniture and equipment	3,528,341	3,072,685
Computer equipment and software	4,016,026	2,951,799
Work in progress	621,139	544,470
Art work	352,215	12,911
	13,867,019	10,823,706
Less:		
Accumulated depreciation and amortization	9,372,857	8,544,895
Property and equipment, net	**$ 4,494,162**	**$ 2,278,811**

Depreciation and amortization of property and equipment amounted to $969,249 and $912,445 for the years ended December 31, 2019 and 2018, respectively.

7. FORECLOSED ASSETS, NET

The Bank did not have foreclosed assets at December 31, 2019 and 2018.

Expenses applicable to foreclosed assets include the following at December 31:

	2019	2018
Provision for losses	$ -	$ -
Gain on sales of foreclosed assets	-	-
Operating (recoveries) expenses	139	(11,551)
Balance at end of year	**$ 139**	**$ (11,551)**

8. DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	$ 507,167,438
2021	26,884,226
2022	4,149,090
2023	103,566
	$ 538,304,320

At December 31, 2019 and 2018, overdrafts amounting to $502,419 and $457,232, respectively, were reclassified from demand deposits to loans on the consolidated balance sheets.

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The following sets forth information concerning securities sold under agreements to repurchase as of December 31:

	2019	2018
Securities sold under agreements to repurchase	$ 45,385	$ 412,330
Fair value of securities pledged for repurchase agreements	$ 3,157,747	$ 3,684,825
Maximum amount outstanding at any month-end during the year	$ 1,894,231	$ 5,860,325
Average amount outstanding during the year	$ 553,597	$ 1,031,702
Weighted-average interest rate for the year	1.03%	1.57%

All securities sold under agreements to repurchase matured within 30 days of December 31, 2019 and 2018.

10. FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2019 and 2018, the Bank had Federal Home Loan Bank ("FHLB") advances as follows:

Year of Maturity	Interest Rate	2019	2018
2019	2.49%	$ -	$ 10,000,000
2019	2.51%	-	10,000,000
2019	2.54%	-	35,000,000
2020	1.78%	65,000,000	-
2020	2.24%	10,000,000	-
2020	2.61%	5,000,000	-
2020	2.71%	10,000,000	-
2029	0.85%	50,000,000	-
		$ 140,000,000	**$ 55,000,000**

The FHLB advances agreement requires the Bank to maintain certain loans as collateral for these advances (NOTE 5). At December 31, 2019 and 2018, the Bank was in compliance with this requirement of the FHLB membership agreement. At December 31, 2019 and 2018, FHLB stock held by the Bank amounted to $7,534,200 and $3,306,200, respectively. At December 31, 2019, $68,628 discount related to FHLB advances from the acquisition of Brickell Bank is included in accrued expenses and other liabilities in the consolidated balance sheets.

The Bank has a line of credit with FHLB of Atlanta that allows drawing up to 20% of total assets. As of December 31, 2019 and 2018, the unused portion of the line amounted to approximately $317,878,000 and $256,641,000, respectively. Additionally, the Bank maintains unused lines of credits with other financial institutions for approximately $35,000,000.

11. INCOME TAXES

The provision for (benefit from) income taxes is as follows as of December 31:

	2019	2018
Current (Benefit) Expense:		
Federal	$ 1,789,512	$ 3,113,992
State	434,847	991,997
Foreign	1,300,035	1,336,639
	3,524,394	5,442,628
Deferred Expense (Benefit):		
Federal	$ (1,507,152)	$ (206,660)
State	(138,559)	(36,236)
	(1,645,711)	(242,896)
Total	**$ 1,878,683**	**$ 5,199,732**

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 for (benefit from) income taxes) as follows:

	2019	Effective Tax Rate
Federal taxes at statutory rate	$ 4,201,679	21.0%
State income taxes, net of federal tax benefit	59,109	0.3%
Bank-owned life insurance	(137,554)	(0.7%)
Tax exempt income	(26,154)	(0.1%)
Bargain purchase gain, net	(2,896,475)	(14.5%)
Impact of reduction of FL corporate income taxes	114,212	0.6%
Foreign taxes	616,198	3.1%
Other, net	(52,333)	(0.3%)
Total	**$ 1,878,683**	**9.4%**

	2018	Effective Tax Rate
Federal taxes at statutory rate	$ 3,809,503	21.0%
State income taxes, net of federal tax benefit	761,004	4.2%
Bank-owned life insurance	(144,752)	(0.8%)
Foreign income taxes	591,860	3.3%
Other, net	182,117	1.0%
Total	**$ 5,199,732**	**28.7%**

11. INCOME TAXES (CONTINUED)

The Bank's deferred tax assets and deferred tax liabilities are as follows as of December 31:

	2019	2018
Deferred tax assets:		
Net unrealized loss on securities available-for-sale	$ 537,754	$ 1,260,214
Allowance for loan losses	2,935,745	2,689,843
Net operating losses	1,667,485	-
Accruals	2,322,330	271,258
Loan discounts	716,210	-
Loan fees	364,543	331,343
Organizational and start-up costs	9,189	18,995
Non-accrual interest	36,733	45,128
Core deposit intangibles	-	23,888
Provision for off balance sheet risk	318,006	243,957
Deferred tax assets	8,907,995	4,884,626
Deferred tax liabilities:		
Deposit premiums	$ 153,023	$ -
Core deposit intangibles	11,898	-
Depreciable property	229,541	105,068
Deferred tax liability	394,462	105,068
Net deferred tax asset	**$ 8,513,533**	**$ 4,779,558**

As of December 31, 2019, the Bank had federal and state net operating loss carryforwards remaining of approximately $ 6,900,00, which is available to reduce the taxable income of the consolidated federal and state tax returns. As a result of the Brickell Bank acquisition, the future utilization these carryforwards is limited pursuant to the provisions of Internal Revenue Code section 382. This annual limitation amount is $ 167,000. For the years ended on December 31, 2017 and prior, the net operating loss carryforwards expire in various years through 2037. For the years ended December 31, 2019 and 2018, the net operating loss carryforwards do not expire.

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

For the year 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.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank grants loans to and accepts deposits from its executive officers, principal shareholders, directors, and its affiliates. At December 31, these amounts are summarized as follows:

	2019	
	Range of Interest Rate	Balance
Loans	4.50% to 5.40%	$ 18,019,198
Deposits	0.00% to 2.85%	38,669,648

	2018	
	Range of Interest Rate	Balance
Loans	5.00%	$ 491,367
Deposits	0.00% to 2.35%	59,105,217
Securities sold under agreements to repurchase	2.00%	21,228

Interest income and interest expense for the years ended December 31, 2019 and 2018 amounted to $498,452 and $25,228 and $419,728 and $31,664, respectively. For the year ended December 31, 2018 loan servicing fees from affiliates amounted to $1,021,500. For the year ended December 31, 2019 there were no loan servicing fees from affiliates. A fee of $6,500,000 was accrued for the assignment of a lease to an affiliate (Refer to Note 16 Commitments and Contingencies).

13. EMPLOYEE BENEFIT PLAN

The Bank has adopted a retirement savings plan (the "Retirement Plan") (a 401k plan) covering substantially all eligible employees effective January 1, 2005. The Retirement Plan includes a provision that the Bank may contribute to the accounts of eligible employees for whom a salary deferral is made. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank contributed $647,895 and $536,239 towards the Retirement Plan in 2019 and 2018, respectively.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, unused lines of credit, standby letters of credit are represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance-sheet instruments.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are usually collateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Bank is committed.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's standby letters of credit are secured by cash collateral at December 31, 2019 and 2018 in the amount of $25,522,535 and $56,179,916, respectively. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	2019	2018
	Contract Amount	Contract Amount
Unused lines of credit	$ 150,605,893	$ 123,634,047
Commitment to extend credit	42,849,750	15,253,761
Standby letters of credit	26,022,535	56,735,102

15. REGULATORY MATTERS

The Bank, as a state-chartered 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 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 our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.

15. REGULATORY MATTERS (CONTINUED)

The Bank is required 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 capital conservation buffer requirement began to be phased in in January 2016 at 0.625% 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 Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total risk-based capital (to risk-weighted assets)	$ 166,756,862	13.2%	$ 100,969,758	8.0%	$ 126,212,198	10.0%
Tier 1 capital (to risk-weighted assets)	$ 153,585,976	12.2%	$ 75,727,319	6.0%	$ 100,969,758	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 153,585,976	12.2%	$ 56,795,489	4.5%	$ 82,037,929	6.5%
Tier 1 capital (to average total assets)	$ 153,585,976	8.6%	$ 71,806,727	4.0%	$ 89,758,409	5.0%

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total risk-based capital (to risk-weighted assets)	$ 130,971,347	13.4%	$ 78,214,226	8.0%	$ 97,767,782	10.0%
Tier 1 capital (to risk-weighted assets)	$ 119,421,086	12.2%	$ 58,660,669	6.0%	$ 78,214,226	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 119,421,086	12.2%	$ 43,995,502	4.5%	$ 63,549,059	6.5%
Tier 1 capital (to average total assets)	$ 119,421,086	9.4%	$ 50,766,156	4.0%	$ 63,457,696	5.0%

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank is obligated under noncancelable operating leases for office space and for the rental of office equipment expiring on various date through 2029. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. These leases contain escalation clauses providing for increased rent expense based on either a fixed rate or an increase in the average consumer price index. Rental expense for office space and for office equipment was $3,182,507 and $2,527,986 for the years ended December 31, 2019 and 2018, respectively, and is included in occupancy expense in the accompanying statements of operations. As part of the acquisition of Brickell Bank, the Bank assumed Brickell Bank's office lease with a remaining 9-year maturity. This lease was assigned to an affiliate for which a fee of $6,500,000 that was accrued included in assignment of lease fee. Then Bank will sublease the Branch location of the assigned Brickell Bank lease from the same affiliate.

At December 31, 2019, future minimum rental commitments under these noncancelable leases were approximately as follows:

Year ending December 31,	
2020	$ 2,563,022
2021	1,732,840
2022	968,066
2023	803,867
2024	834,040
Thereafter	4,188,269
	$ 11,090,104

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. The Bank is also party to various litigation actions. However, such actions are on its early stages and, therefore, it is management's belief that it is too soon to determine the eventual financial impact, if any.

17. FAIR VALUE MEASUREMENTS

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. In accordance with the fair value measurements accounting guidance, 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.

The recent fair value 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.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy

In accordance with this guidance, 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. There have been no changes in the methodologies used at December 31, 2019 and 2018.

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 following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities Available for Sale - When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third party broker-dealers. Management reviews pricing methodologies provided by the vendors and third party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available. The specific investment holdings which are included in the Level 2 classification are U.S government issued securities; U.S. government agencies collateralized mortgage obligations, mortgage-backed securities, corporate bonds and municipal securities.

FHLB Stock - The carrying value of the FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Bank Owned Life Insurance - The fair value of the Bank owned life insurance policies approximates the carrying values which are based on the policies cash surrender value.

Accrued Interest Receivable and Payable - Carrying amounts of accrued interest receivable and payable approximates its fair value due to the short-term nature of these financial instruments.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (continued)

Deposits - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2019 and 2018. The fair value of fixed-maturity time deposits are estimated using discounted cash flow analysis, using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds - Borrowings under repurchase agreements and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other long-term borrowings are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Unused Lines of Credit, Commitments to Extend Credit, and Standby Letters of Credit - The fair value of off-balance-sheet, credit-related financial instruments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

Items Measured at Fair Value on a Recurring Basis

The following table represents the Bank's financial instruments measured at fair value on a recurring basis for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
U.S. government agencies issued securities	$ -	$ 42,939,731	$ -	$ 42,939,731
Collateralized mortgage obligations	-	8,323,721	-	8,323,721
Mortgage-backed securities	-	205,714,183	-	205,714,183
Corporate bond	-	1,673,530	-	1,673,530
Municipal securities	-	4,955,780	-	4,955,780
	$ -	**$ 263,606,945**	**$ -**	**$ 263,606,945**

	Level 1	Level 2	Level 3	Total
December 31, 2018				
U.S. government agencies issued securities	$ -	$ 65,620,238	$ -	$ 65,620,238
Collateralized mortgage obligations	-	11,806,372	-	11,806,372
Mortgage-backed securities	-	92,157,274	-	92,157,274
Corporate bond	-	10,945,200	-	10,945,200
Municipal securities	-	33,948,401	-	33,948,401
	$ -	**$ 214,477,485**	**$ -**	**$ 214,477,485**

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

Items Measured at Fair Value on a Nonrecurring Basis

Impaired Loans

Certain assets that are considered impaired are not measured at fair value on an ongoing basis but are subject to fair value measurements. These instruments are measured at fair value on a nonrecurring basis and include certain loans that have been deemed to necessitate an impairment analysis.

When a loan is deemed impaired, the Bank's management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical method, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral dependent. As of December 31, 2019 and 2018, loans deemed to be impaired based on fair value measurement totaled $1,718,578 and $1,672,901, respectively, with the portion deemed to be impaired included in the allowance for loan losses.

Collateral dependent loans and loans based on the present value of expected future cash flows discounted at the loan's effective interest rate are classified in Level 3 of the fair value hierarchy as the valuation technique requires inputs that are both significant and unobservable.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Items Measured at Fair Value on a Nonrecurring Basis (continued)

The following table represents the Bank's financial instruments measured at fair value on a nonrecurring basis for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Impaired loans	$ -	$ -	$ 1,718,578	$ 1,718,578

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Impaired loans	$ -	$ -	$ 1,672,901	$ 1,672,901

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

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2019:

	2019	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 62,123,497	$ 61,820,640
Investment securities available for sale	263,606,945	263,606,945
Investment securities held to maturity	546,518	547,843
Federal Home Loan Bank stock	7,534,200	7,534,200
Loans, net	1,327,901,088	1,376,798,978
Bank-owned life insurance	33,649,394	33,649,394
Accrued interest receivable	5,213,393	5,213,393
Financial liabilities:		
Demand, money market and saving accounts	$ 864,600,434	$ 864,600,434
Time deposits	538,304,320	539,784,198
Securities sold under agreements to repurchase	45,385	45,385
Federal Home Loan Bank advance	140,000,000	74,995,141
Accrued interest payable	3,978,204	3,978,204

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2018:

	2018	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 72,378,267	$ 72,113,368
Investment securities available for sale	214,477,485	214,477,485
Investment securities held to maturity	5,707,645	5,685,862
Federal Home Loan Bank stock	3,306,200	3,306,200
Loans, net	946,393,862	994,892,808
Bank-owned life insurance	20,994,377	20,994,377
Accrued interest receivable	3,825,984	3,825,984
Financial liabilities:		
Demand, money market and saving accounts	$ 712,139,210	$ 712,139,210
Time deposits	385,169,492	383,462,225
Securities sold under agreements to repurchase	412,330	412,330
Federal Home Loan Bank advance	55,000,000	55,000,000
Accrued interest payable	2,436,554	2,436,554

18. BANK OWNED LIFE INSURANCE

Bank owned life insurance (“BOLI”) is carried at the amount that could be realized under the contract at the balance sheet date, which is typically the cash surrender value. Changes in cash surrender value are recorded in non-interest income. The Bank maintains BOLI policies with two insurance carriers with a combined cash surrender value of $33,649,394 and $20,994,377 at December 31, 2019 and December 31, 2018 covering certain present and former executives and officers. The Bank is the beneficiary of these policies.

19. REVENUE RECOGNITION

As discussed in Note 2, on January 1, 2019, the Bank adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Bank has elected to apply the ASU and all related ASUs using the modified retrospective 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 in the scope of topic 606 is recognized within noninterest income on the accompanying consolidated statements of earnings. A description of the Company’s revenue streams accounted for under Topic 606 follows:

Service Charges and Fees on Deposit Accounts – Deposits are included as liabilities in the consolidated balance sheets. Service charges and fees on deposit accounts include: overdraft fees, which are charged when customers overdraw their accounts beyond available funds; automated teller machine (ATM) fees charged for withdrawals by deposit customers from other financial institutions’ ATMs; and a variety of other monthly or transactional fees for services provided to retail and business customers, mainly associated with checking accounts. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized in income at the time when services are provided to the customers. Incremental cost of obtaining deposit contracts are not significant and are recognized within noninterest expense in the accompanying consolidated statements of operations.