
ANNUAL
REPORT
2020
Banesco
Caring
for each
Other

ANNUAL REPORT 2020

A Word from our President & CEO

Dear Banesco USA family,

2020 was a year that has marked each one of us in a special way. It was a year that for many reasons we will not forget. It was very challenging, but when I look back and review all the events that we as a country, as a community, and as Banesco USA have overcome, I feel proud of the team and our customers.

First and foremost, our Business Centers remained open during the pandemic and our staff worked diligently to ensure our clients had no impact in terms of managing their accounts and financial operations. Thanks to our digital transformation initiatives, and technological investments, our customers continued to have full access to their accounts, their Account Officers and Client Care Center Specialists.

Supporting our communities has always been an important part of Banesco USA's culture, and during 2020 it became more noticeable. We were one of the few community banks in South Florida and Puerto Rico that offered the Paycheck Protection Program (PPP) to our clients, and by the end of December, we had processed more than 490 applications and funded $80 million in PPP loans. Through the Relief Program, we also helped some of our borrowers that were experiencing difficulties because of COVID-19, by granted 250 forbearance agreements, totaling $387 MM.

Another important milestone is that Banesco USA reached $1.9 billion in Total Assets this year. We have more than doubled the size of the Bank in 3 years, and to support our outstanding performance, and our growth plans for the next 5 years, we purchased a building to house what will be our new headquarters. With 59,140 square feet and three stories, our new HQ building features open spaces for amenities, and an on-site 3-story parking garage – more than enough for our team and our clients. There are collaborative spaces and conference rooms throughout, along with large work areas on each of the building's three floors that will be customized to create high performing team areas.

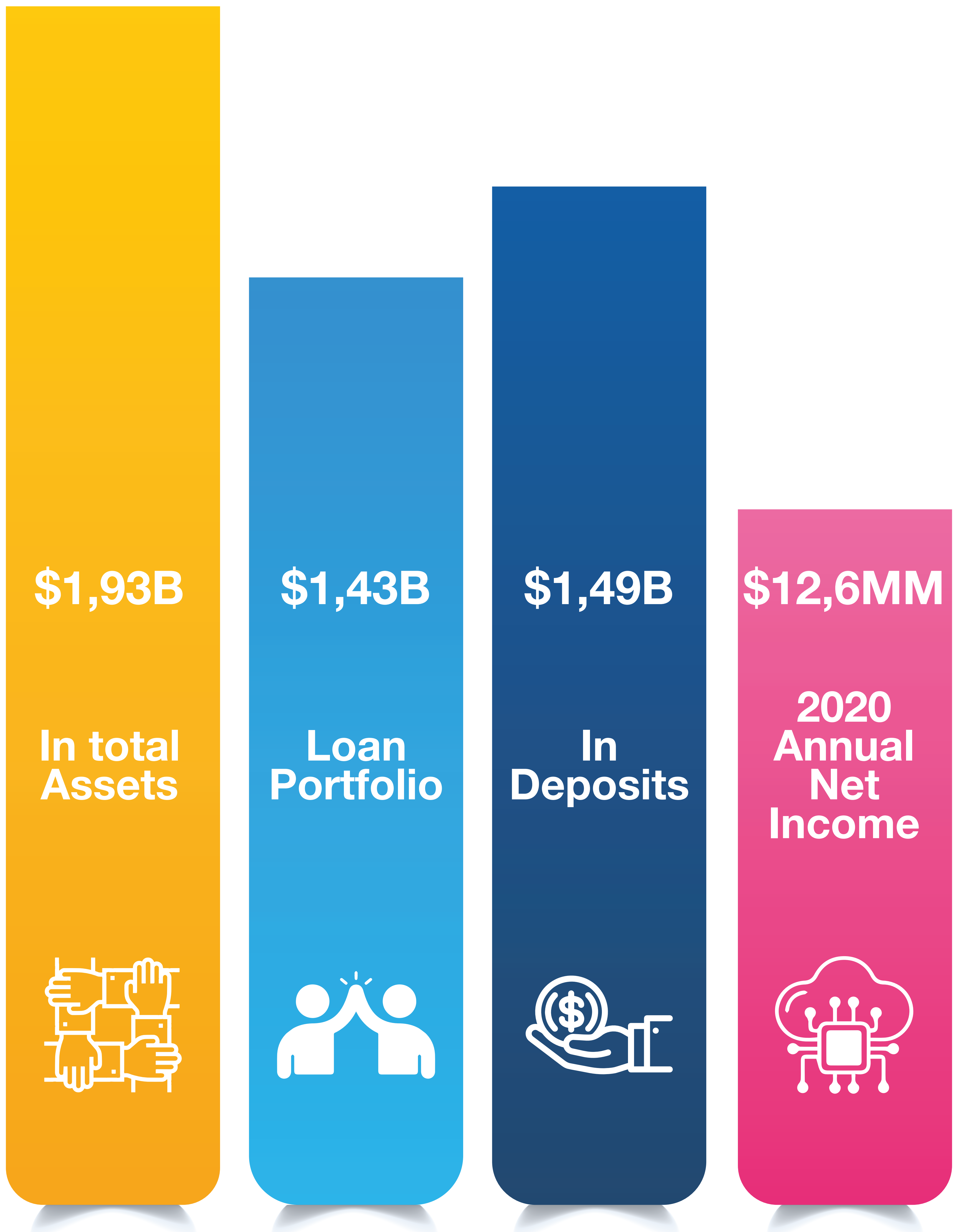
We're excited to unite our entire team under this new roof and create stronger synergy for our operations, as well as a dynamic new environment with a space that allows for our continued growth. We will be renovating the building to provide the best, most innovative, and ecological approach to serving our clients and our community.

I'm proud of what we have accomplished in 2020 and our contribution to the local economy in these challenging times. Thank you to all our customers, shareholders, and staff for the support and commitment that makes Banesco USA the exceptional organization that it is.

Best regards,

President & CEO of Banesco USA

Banesco USA by the numbers



Banesco USA 2020 Highlights

Our Business Centers remained open during the pandemic and our staff worked diligently in order to ensure our clients had no impact managing their accounts and financial operations. Also, thanks to our online and mobile banking platforms, our customers ware able to handle their finances remotely.

Almost 90% of our staff worked remotely during 2020, using digital communication tools to continue providing the personalized attention that our clients expect.

The safety of our staff and customers have always been a priority! That is why during those challenging times, Banesco USA sent our employees a care package with some items to keep them safe and protected. Our Business Centers were also adapted to meet CDC guidelines; routine cleanings and disinfection were performed, signages with information about how to prevent the spread of COVID-19 were place in the customer service areas along with hand sanitizer stations.

Helping small businesses grow is our priority! Banesco USA won the 2020 SBA Award for Export Lender of the Year (Total Loan Dollars)

Banesco

Banesco USA closed on the purchase of a building to house what will be our new Headquarters. With 59,140 square feet and three stories, this building features open spaces for amenities, and an on-site 3 story parking garage – more than enough for our team and our clients. There are collaborative spaces and conference rooms throughout, along with large work areas on each of the building's three floors that will be customized to create high performing team areas. Expected to open in Q1 2022.

Banesco USA was one of the few community banks in South Florida and Puerto Rico that offered the Paycheck Protection Program (PPP) to their clients. By the end of December 2020, we had processed more than 490 applications and funded $80MM in PPP loans.

Another success for Banesco USA during 2020 was the merger with Brickell Bank. The completed conversion of systems of the merged institution was well planed with an impeccable execution.

Banesco International & ABANCA

+ 11.3 Thousand Employees

+ 6,9 Million Clients

$125 Billion in Assets

Banesco International is a brand of financial services with an international presence and more than 34 years of experience in banking, insurance, and payment methods. The brand is present in four countries via four independent financial institutions: Banesco USA, Banesco Panama, Banesco Dominican Republic, and Banesco Venezuela.

ABANCA is an independent financial entity based in Spain and regulated by the European Central Bank. ABANCA has positioned itself as one of Spain's most profitable banks.

Altogether, Banesco International (BI) and ABANCA total 11,378 employees, 985 offices, and 6.9 million customers as of December 2020. Overall assets exceed $125 billion, and total net equity amounts to €5.283 billion

Banesco International

US $697
Million Net Equity

279 Branches

4.8 Million Clients

$10 Billion
in Assets

5.5 Thousand
Employees

Corporate Banking

"Amid a global pandemic that brought the economy to a standstill, the Banesco USA net loan portfolio reached $1,435 million at the close of 2020, growing 7% compared to the previous year. This milestone comes at a time of great transformation and even greater challenges, where we have been pushed to adopt new habits and lifestyles. I am proud of the extraordinary work done by the Banesco USA team, who have worked with all our clients to overcome this challenge together and emerge stronger."

Nelson Hidalgo
Executive Vice-President,
Head of Corporate Banking

2020 was a year of challenges but also a year full of opportunities and achievements. For example:

- Banesco USA won the award for 2020 Export Lender of The Year (Total Loan Dollars) by the U.S. Small Business Administration.
- We grew our loan portfolio by $95 million vs. 2019.
- All our Loan Officers were on duty during the worst moments of the pandemic, ensuring that all our clients continued to receive the service and support they are used to.
- Banesco USA funded $80 million in PPP Loans Round 1 and processed more than 490 loan applications.
- We helped some of our borrowers that were experiencing difficulties because of COVID-19 by granted 250 forbearance agreements, totaling $387 MM.

Corporate Banking

At Banesco USA we offer several business loans depending on the specific business needs of our customers. Our decision-making process is local and takes place right here in our Coral Gables headquarters by dedicated and experienced professionals that understand local dynamics and know the communities.

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.

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.

Asset Guaranteed Loans

Secured by the business account receivables or inventory.

Our Real Estate portfolio includes:

Multifamily:

- Apartment buildings.
- Combined duplex/triplex/fourplex buildings.
- Non-conforming apartment buildings.

Retail:

- Unanchored shopping/retail centers.
- Anchored shopping/retail centers.
- Retail properties for owner-users.
- Single Rated tenant property (Rated tenant).

Warehouses:

- Multi-tenant warehouses.
- Warehouses for owner-users.
- Light Industrial properties.
- Warehouses/showrooms.

Offices:

- Multi-tenant office buildings.
- Single-tenant office buildings
- Office/showrooms.
- Office buildings for owner/users.

Other Property Types:

- Mixed-use investment properties.
- Gasoline/C-Store service stations.
- Hotels.

Commercial & International Banking

"2020 has been a memorable and complicated year. None of us have escaped unscathed in our personal or professional lives. But despite the circumstances, all the Business Centers staff and International Department never stopped working closely with our customers, specially with the small business owners, to ensure they were receiving all the support and services they required at such difficult times."

Luis A. Grau
Senior Vice-President, Head of Commercial & International Banking

Banesco USA offers a wide range of international banking products:

Business Checking Accounts:
With features like unlimited checks, no maintenance fees when maintaining the minimum daily balance required, online and mobile banking, and 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 (CD):
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.

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 are in 15 countries and territories via its affiliation with Banesco International (Panama, Dominican Republic, Puerto Rico, Venezuela, Curaçao) and partner companies (France, Germany, Mexico, Portugal, Spain, Switzerland, United Kingdom, Argentina)

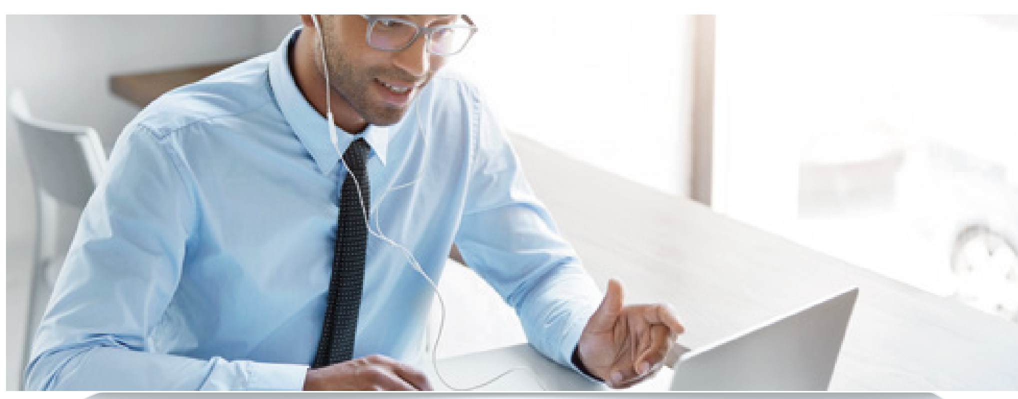
Partnership with Local Agency:
Where we refer our customers for investment needs.

Customer Experience & Innovation

"In the year of social distancing, we were closer than ever to our customers. Thanks to our digital transformation initiatives and technological investments, our customers continued to have full access to their accounts, their Account Officers and Client Care Center Specialists. We will continue making investments to enhance our client's product and customer value proposition."

Gustavo Rengifo
Senior Vice-President, Products & Digital Banking Officer

During 2020 it was more important than ever for our clients to have complete control of their finances, therefore, we focus on providing them with all the tools to manage and protect their Banesco USA accounts:



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.

FICO® Score

Free 24/7 credit score access for domestic personal customers. Our customers can access their FICO® Score monthly without negatively impacting their credit score. Also, they can see key factors that are impacting their score and track recent scores month-to-month and compare them to national averages.

Customer Experience & Innovation

Our Business and Cash Management Services include:

- **Banesco Visa® Check Card**:
  Easily and safely manage your Business Checking Account through your VISA@ Debit 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 business operation more efficient. The transfer process is automated, convenient, and predictable, giving you better control of your funds.

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

- **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 sooner, 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:**
  For business accounts that protects you from check fraud.

- **Lock Box:**
  Comprehensive remittance processing to streamline receivables and reduce the potential for 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.

*Service provided by First Data®

Human Capital

"Our team members are key stakeholders in accomplishing the strategic goals of the organization. Our talent is the most vital asset in maintaining the organization's sustainability and we value and recognize the contribution of each individual. Our commitment to our customers and the efforts from our team is reflected not only in our financial results but in our ability to connect with the communities we serve and support them when they need it most"

Leticia Pino
Executive Vice-President,
Chief Administrative Officer

We are committed to the health and safety of our team members, customers, and community. As the COVID-19 pandemic took hold and shifted personal and professional lives, new and flexible thinking was required to motivate, engage, and manage our talent. In March of 2020, we transitioned our staff to a virtual environment and our customers were able to continue their banking needs via our robust online banking services. The pandemic just confirmed how resilient, committed, and adaptable our teams are.

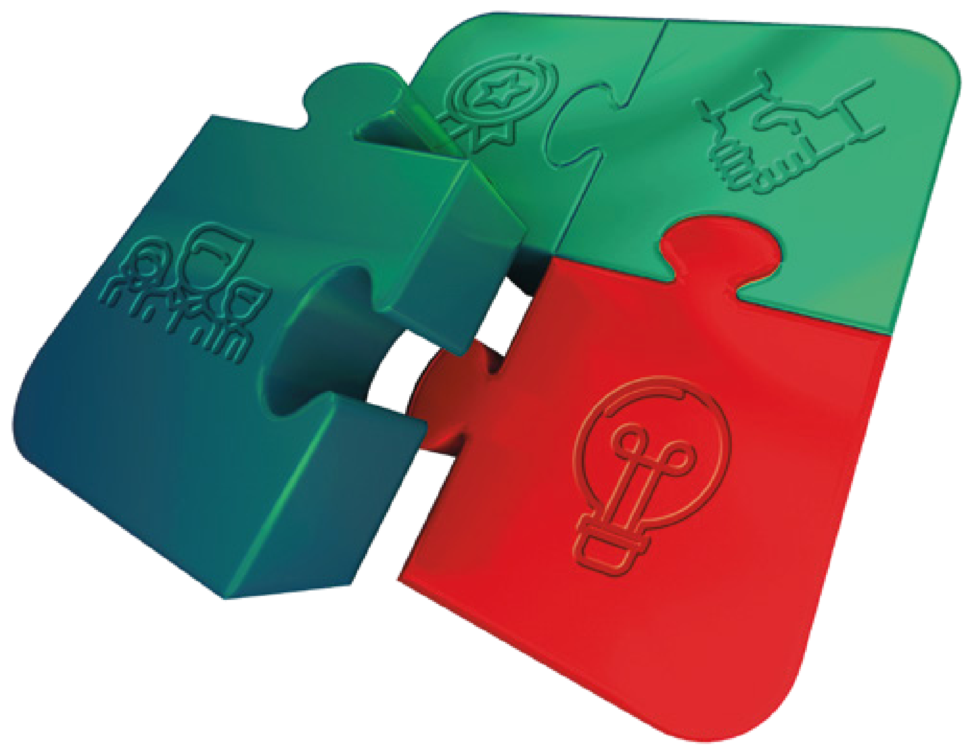
In 2020 we substantially enhanced and developed our Human Capital Strategy around the conviction that our people are our key. We developed engagement, recognition and wellness programs, virtual activities, community involvement activities and an improved onboarding experience. We are strongly focused in maintaining a motivated team and in attracting and retaining the best talent.

Human Capital

We are committed to living and working by our upstanding core values:

Quality

Reliability



Responsibility

Innovation

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.

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.

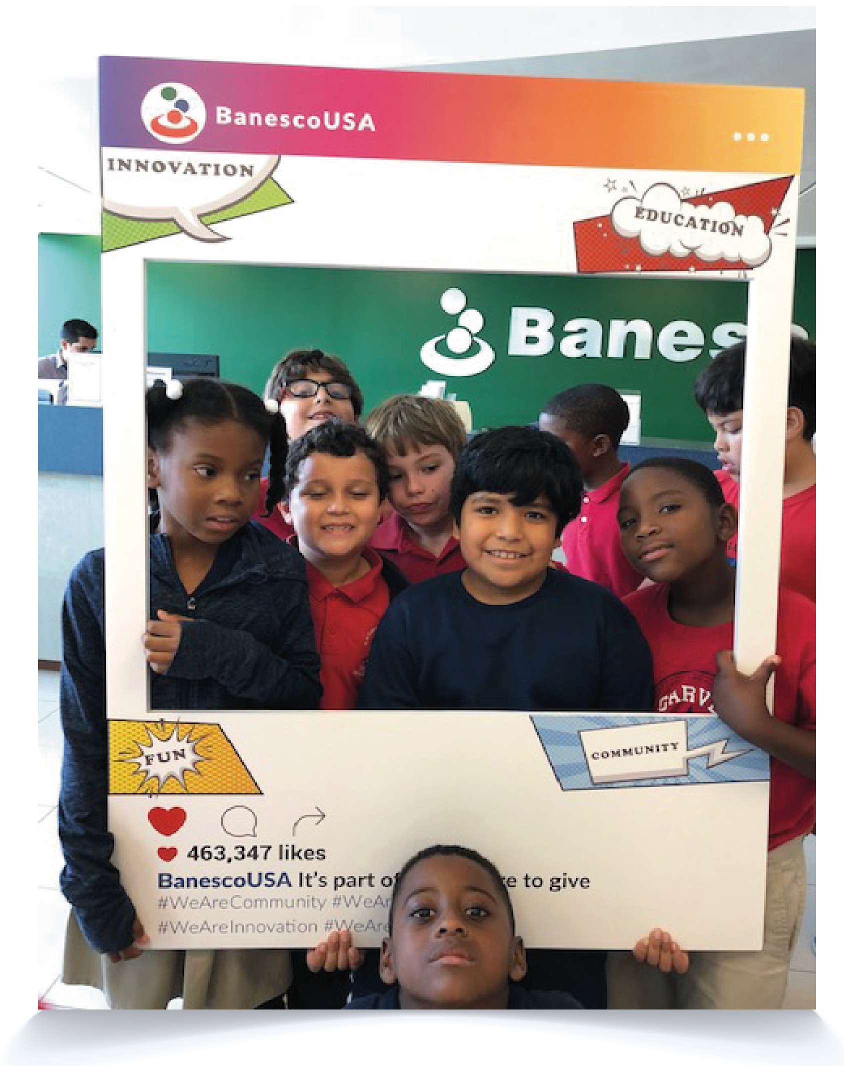
Innovation

- 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.

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.

Corporate Social Responsibility



For Banesco USA, 2020 was a year for collaboration, resilience and the strengthening of our company from the inside out. Although supporting our communities has always been an important part of Banesco USA's culture, during 2020 we were closer than ever to our communities in South Florida and Puerto Rico.

Among the efforts are:

Supporting our communities

Women have played an important role in the medical field during the pandemic. Therefore, the City of Aventura declared June 26, 2020, as the Women Day in Medicine. Banesco USA joined the City of Aventura in that initiative and paid tribute to the women who work at Aventura Hospital in an event where they were given presents to recognize their effort.

During Thanksgiving week, Banesco USA helped 40 low-income families from E.W.F. Stirrup Elementary School by giving them gift cards from a popular supermarket, where they were able to buy all the food, they needed to celebrate this important day.

Paycheck Protection Program (PPP)

On March 27, 2020, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was primarily intended to support individuals and businesses following the unprecedented impact of COVID-19 in our communities.

The US Small Business Administration (SBA), based on this law, created the Paycheck Protection Program (PPP), which helped small and medium-sized businesses cover expenses related to their operation, such as; payroll, utilities, rent, and mortgage interest.

Banesco USA is one of the community banks that offered its clients PPP loans. In the first round, more than 490 applications were processed and $80 million in loans were granted to help small and medium-sized businesses in South Florida and Puerto Rico.

Banesco USA offered its clients a platform that allowed them to apply for the loan and submit all the documentation online. The platform and the entire process were created in record time thanks to the efforts of all the areas involved.

Miami Regional University

Banesco USA made a donation to the Miami Regional University scholarship fund. Miami Regional University is one of the universities located in South Florida that offers to more than 1,000 students, a wide variety of science and nursing programs. With this donation, Banesco USA supports the incorporation of new talents in the medical area, which is so necessary now.

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. During 2020, Banesco USA volunteers gave virtual classes to students.


Our Greatest Asset
is Our People

Board of Directors

CARLOS PALOMARES
Chairman of the Board

JUAN CARLOS ESCOTET RODRÍGUEZ
Vice- Chairman of the Board

MIGUEL ÁNGEL MARCANO
Director

JUAN CARLOS ESCOTET ALVIAREZ
Director

SENO BRIL
Director

CARLOS EDUARDO ESCOTET ALVIAREZ
Director

ALVARO MORALES
Director

Executive Management

MERCEDES ESCOTET
Executive Vice-President, Chief Corporate Governance Officer

ALBA PRÉSTAMO
Executive Vice-President, Chief Compliance Officer

LETICIA PINO
Executive Vice-President, Chief Administrative Officer

MARITZA ABADÍA
Executive Vice-President, Puerto Rico Country Manager

LUIS A. GRAU
Senior Vice-President, Head of Commercial & International Banking

NELSON HIDALGO
Executive Vice-President, Head of Corporate Banking

MICHEL VOGEL
Senior Vice-President, Chief Credit Officer

JULIO VALLE
Executive Vice-President, Chief Information Officer

KENNETH SCHOENI
Executive Vice-President, Chief Financial & Risk Officer

GUSTAVO RENGIFO
Senior Vice-President, Products & Digital Banking Officer

RAFAEL NAVARRO
Vice-President, Strategic Planning Officer

NORMA SABO
Senior Vice-President, General Counsel

Management Discussion and Analysis

The following management's discussion and analysis (MD&A) is intended to assist readers in understanding the financial condition and results of operations of the Bank as of December 31, 2020. This discussion should be read in conjunction with the audited financial statements, accompanying footnotes and other supplemental financial data included in this annual report.

Financial Statements

The Bank prepares its financial statements in accordance with accounting principles generally accepted in the U.S. In this section, we review the main variations of the summary balance sheets and statements of operations at the close of 2020 with respect to the amounts presented at the close of 2019.

Management Discussion and Analysis

Net Income

Net income of $12.6 million in 2020 represents a decrease from net income of $18.1 million in 2019. The decrease is attributed to several factors, the main one being the $14.5 million Bargain Purchase Gain booked in the prior year associated to the Brickell Bank acquisition. During 2020, the Bank established an additional COVID-19 reserve to reflect the probable current losses in the portfolio from the effect on borrowers of the COVID-19 pandemic. This additional reserve was partially off-set by $8.9 million in realized gains from the investment portfolio, an increase form the prior year of $13 million in the financial margin, and $1.6 million in other non-interest income. Additionally, operating expenses were $11 million lower than the prior year.

Net Interest Income

Net interest income before provision for loan losses increased $13.1 million, or 27 percent, to $61.8 million in 2020, from $48.8 million in 2019.

Non-interest Expense

Total non-interest expense decreased by $6.5 million, or 11 percent, during the year. The main contributing factor leading to the decrease was the 2019 one-time assignment of lease fee of $6.5 million associated with the successful acquisition of Brickell Bank. This continued growth of the Bank included large project expenses such as the implementation of new technologies related to loan processing, account opening, and online/mobile banking.
The Bank is also continuously preparing a solid foundation for diversified growth with the purpose of sustainable profitability.

Provision for Loan Losses

The provision for loan losses totaled $16.6 million in 2020, an increase of $16.2 million from 2019.

Non-interest Income

In 2020, total non-interest income decreased by $8.7 million or 30.0 percent. The main contributing factor leading to the decrease was the 2019 Bargain Purchase Gain of $14.5 million realized from the Brickell Bank acquisition. Excluding the Bargain Purchase Gain in 2019, non-interest income increase by $5.8 million or 39 percent. The main contributing factor was higher gain on sale of investments securities.

Gain on securities for 2020 was $8.9 million; the sales of investment securities available for sale stem from the Treasury Unit's ongoing assessment of the total return profile of each security versus the market for investments of similar risk, the mitigation of the significant risk to equity arising from prepayments (beyond contractual) on investment securities with material market appreciation, and management of the duration of the balance sheet.

Income Taxes

In 2020, the Bank recorded an income tax expense of $2.0 million, compared to an income tax expense of $1.1 million the prior year. In 2019 the Bargain Purchase Gain of $14.5 million, as a result of the Brickell Bank acquisition, was not taxable.

Management Discussion and Analysis

Total Assets

Total assets closed the year 2020 at $1,936 million, an increase of $217 million, or 13 percent, compared to the previous year. The net loan portfolio, which closed the year at $1,410 million, or 72.8 percent of total assets, grew by 7% . The investment securities portfolio of $335 million at the end of 2020, or 17 percent of total assets, grew by 27 percent since the end of 2019. Cash and cash equivalents showed an increase of $41.1 million, or 66 percent, compared to 2019.

Cash and Cash Equivalents

The Bank continues to maintain significantly high liquidity levels as part of its asset-liability management strategies. A significant part of those strategies is holding liquid assets in the form of cash and cash equivalents, primarily deposits with the Federal Reserve Bank. At the close of 2020, cash and cash equivalents reached $103 million, 7.3 percent of total assets, an increase of 66 percent compared to the close of 2019.

Investment Securities

The investment portfolio, which represents approximately 17 percent of total assets, is composed of high-quality debt instruments issued by U.S. Government Agencies (9 percent), U.S. Government Sponsored Enterprises MBSs (72 percent), U.S. Government Sponsored Enterprises CMOs (1 percent), Municipal Securities (3 percent), and Corporate Securities (16 percent).

The composition of the investment securities portfolio at December 31, 2020 is illustrated in the chart on page 23.

The Bank manages its investment portfolio with strategies designed to provide the optimum combination of liquidity, interest income, credit risk, and market risk. The investment portfolio's market and credit risks are managed on a continuous basis by the Bank's Treasury Unit and monitored by the Bank's ALCO Committee.

Gross Loans

The net loan portfolio reached $1,435 million at the close of 2020, growing $95 million, or 7 percent, compared to the previous year. This increase was primarily driven by the prudent growth in Commercial, Commercial Real Estate, construction and Residential Real Estate portfolios. The Bank also participated in the Paycheck Protection Program ("PPP") which is a loan program that originated from the CARES Act designed to provide U.S. small businesses with cash-flow assistance through loans

fully guaranteed by the Small Business Administration ("SBA"). As of December 31, 2020, the outstanding balance of PPP loans was approximately $58 million.

Other Assets

Other assets increased $19.3 million compared to the prior year. Other assets consist of:

- $16.2 million in property and equipment, net, which increased $11.7 million from prior year mostly attributed to the acquisition of the new headquarter building.

Management Discussion and Analysis

- $10.4 million in accrued interest receivable which increased $5.2 million compared to the prior year.
- $10.5 million in Deferred Tax Assets which increased
- $2.0 million compared to the prior year.
- $34.7 million in Bank Owned Life Insurance which increased by $1.1 million compared to the prior year.
- $4.4 million in prepaid and other assets, which decreased by $0.7 million compared to the prior year.

Deposits and Securities Sold under Agreement to Repurchase

Deposits and securities sold under agreements to repurchase (repo accounts, including customer's overnight sweep repo accounts) reached an all-time high of $1,505 million at the close of 2020, representing an increase of $102 million from 2019.

There was an increase in non-interest bearing accounts of $136 million and a decrease in interest bearing accounts of $39.8 million. Repo accounts increased by $6.4 million compared to the previous year.

Advances from the Federal Home Loan Bank

The Federal Home Loan Bank offers its member institutions fixed or variable rate secured lines of credit based on the institution's condition and creditworthiness. The Bank utilizes short to medium-term fixed rate advances as one of its pools to manage balance sheet interest rate sensitivity risk. Advances from the Federal Home Loan Bank closed the year at $235 million, which increased by $95 million compared to 2019.

At December 31, 2020 the Bank had a credit line of

approximately $497 million, with an unused borrowing capacity of approximately $262 million.

Stockholder's Equity

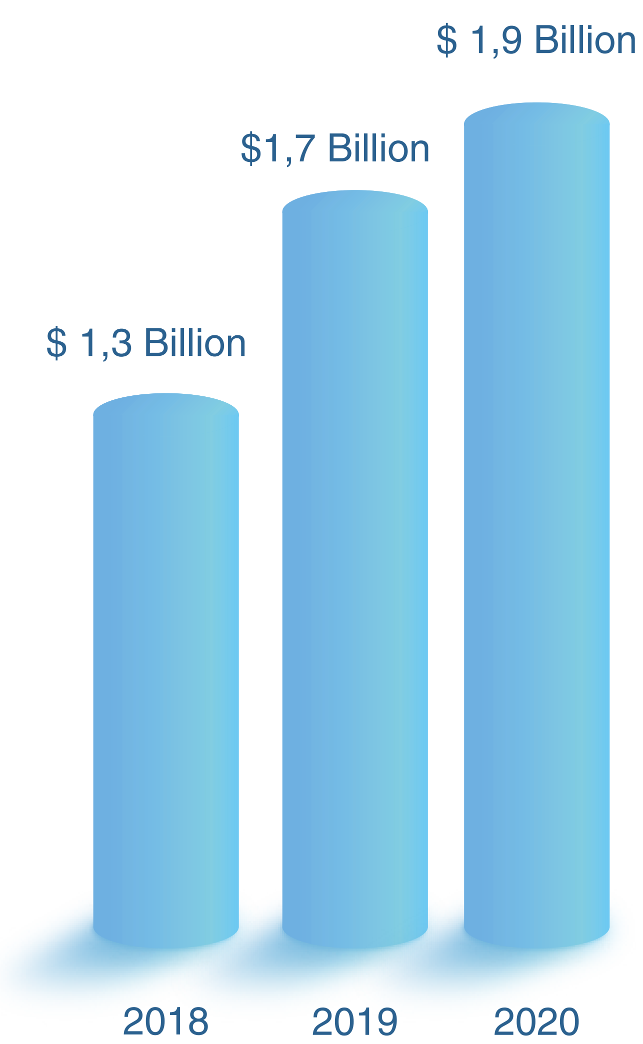
Stockholder's equity grew by $14.3 million or 9 percent during the year. Net income of $12.6 million and the appreciation of the investment portfolio of $1.7 million were the main contributing factors for this increase in shareholder's equity.

Due to the strong growth in equity, in spite of the bank growing 13 percent in assets, capital ratios remain at a similar level as 2019. Tier 1 Risk-Based Capital as a percentage of Risk-Weighted Assets of 12.2 percent remained the same as in 2019. Total Risk-Based Capital to Risk-Weighted Assets increased to 14.5 percent in 2020 from 13.2 percent in 2019.

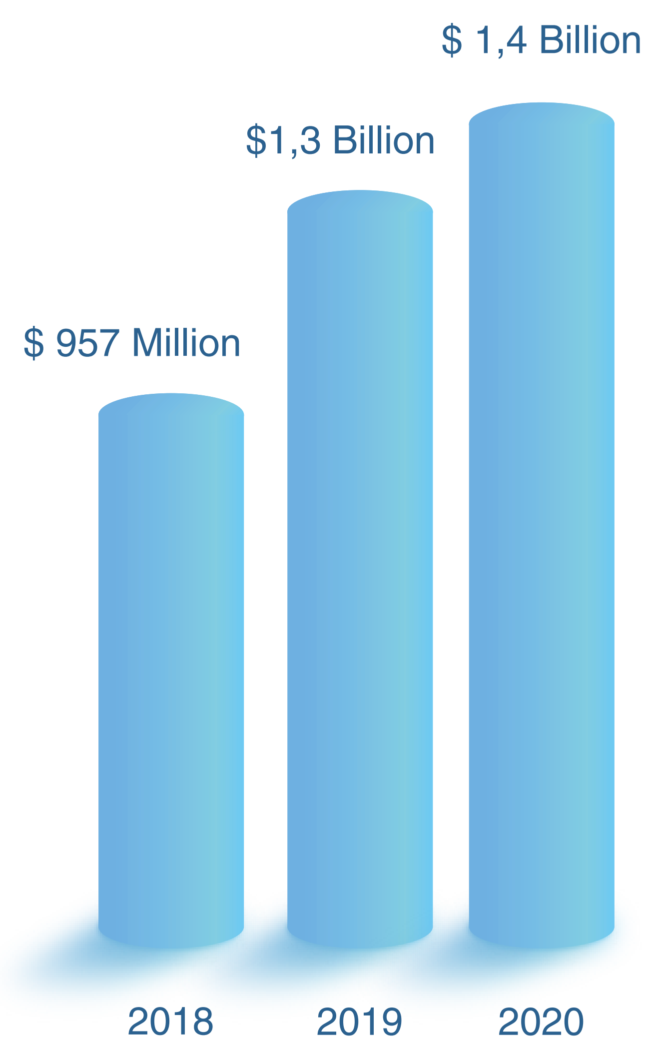
Total Risk-Weighted Assets increased approximately $93 million, as a result of the growth in the portion of the loan portfolio allocated to a higher risk weight category for regulatory capital computation purposes.

Financial Highlights

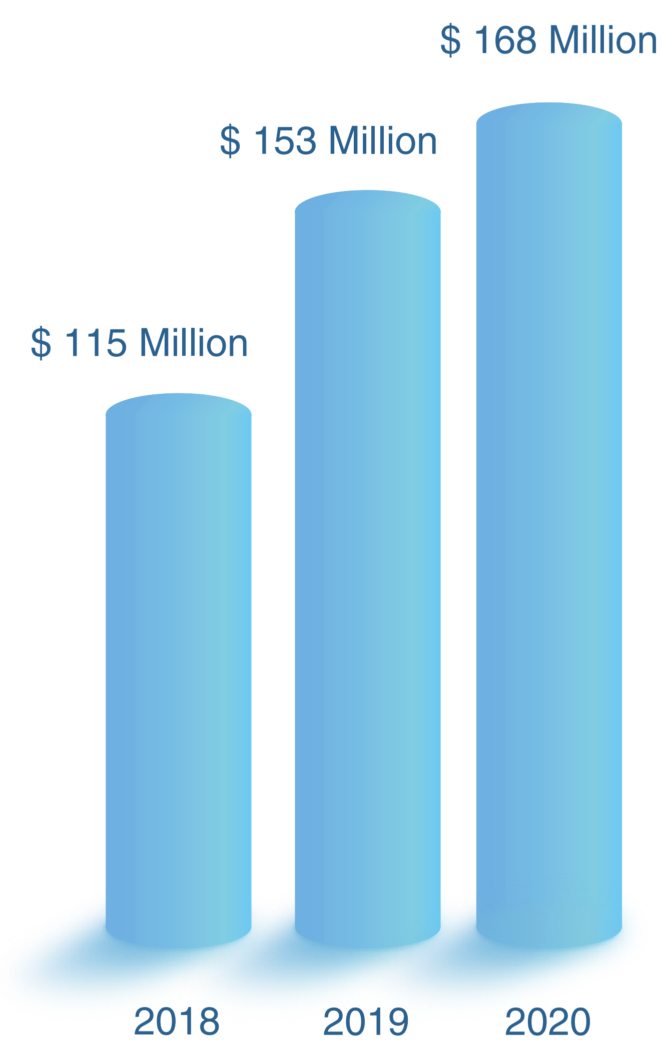
Assets



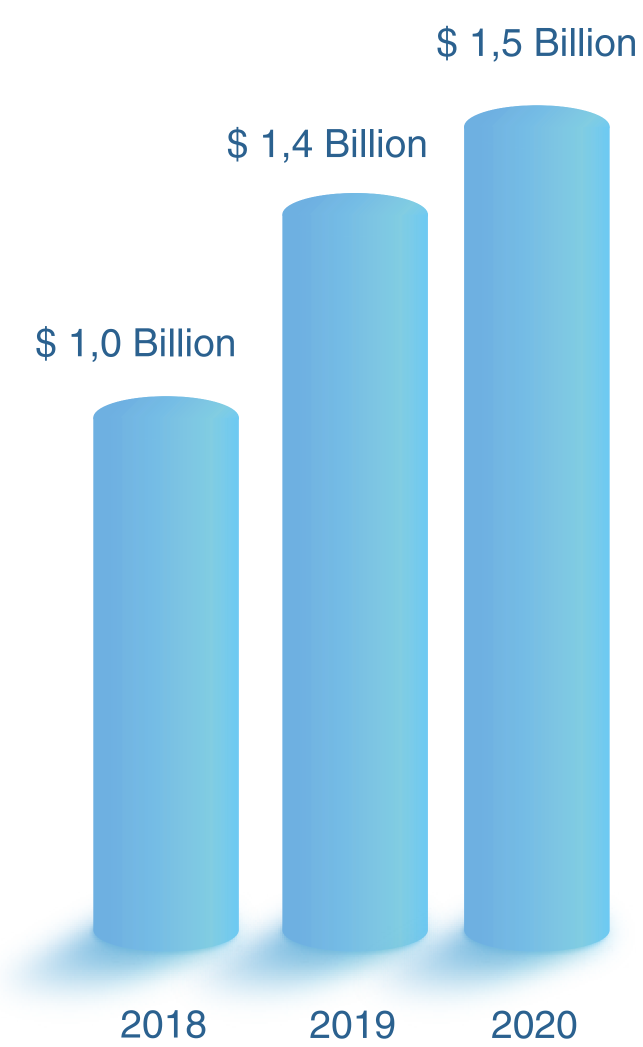
Loans (Gross)



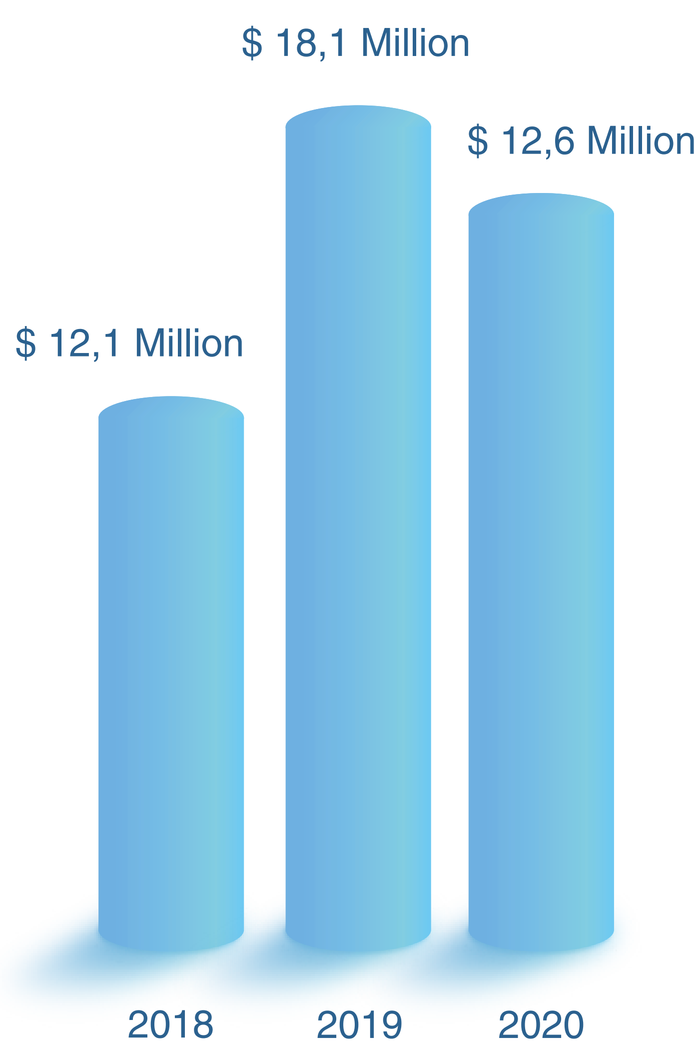
Capital



Deposits

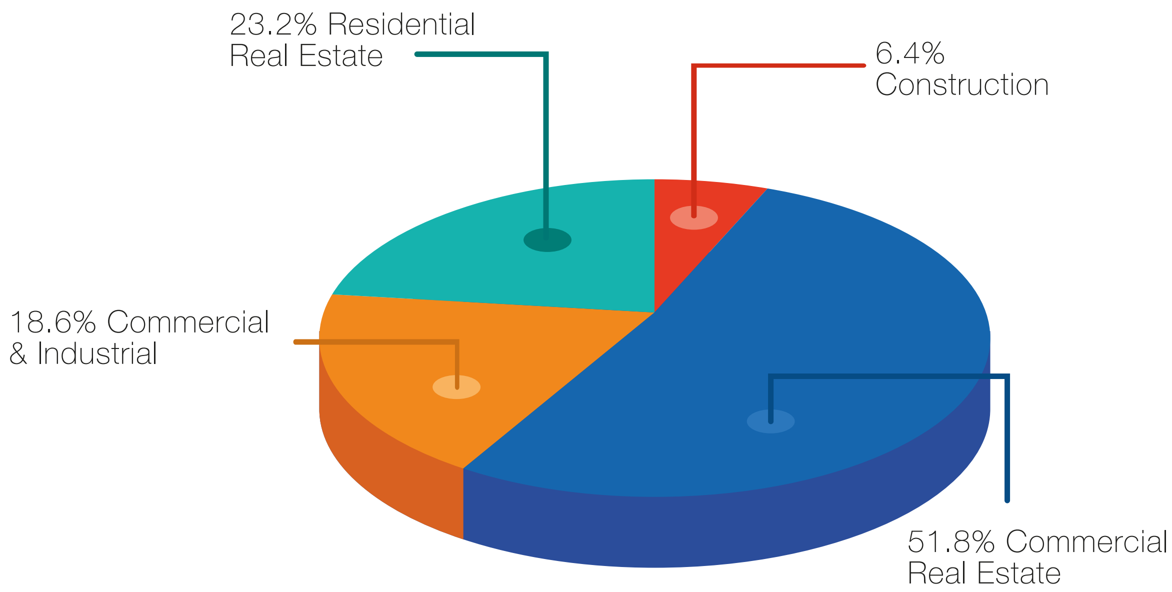


Net Income

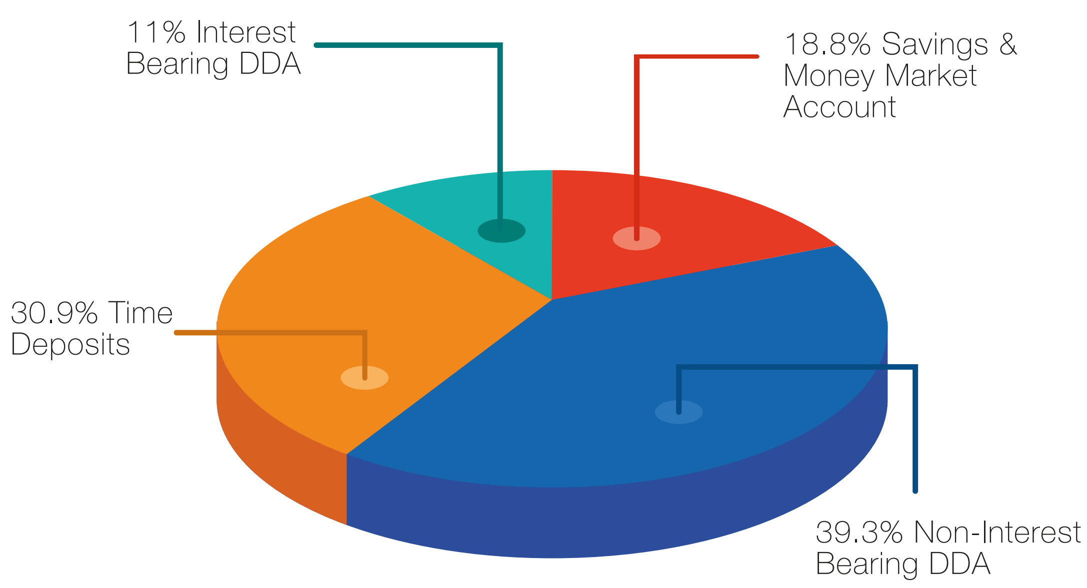


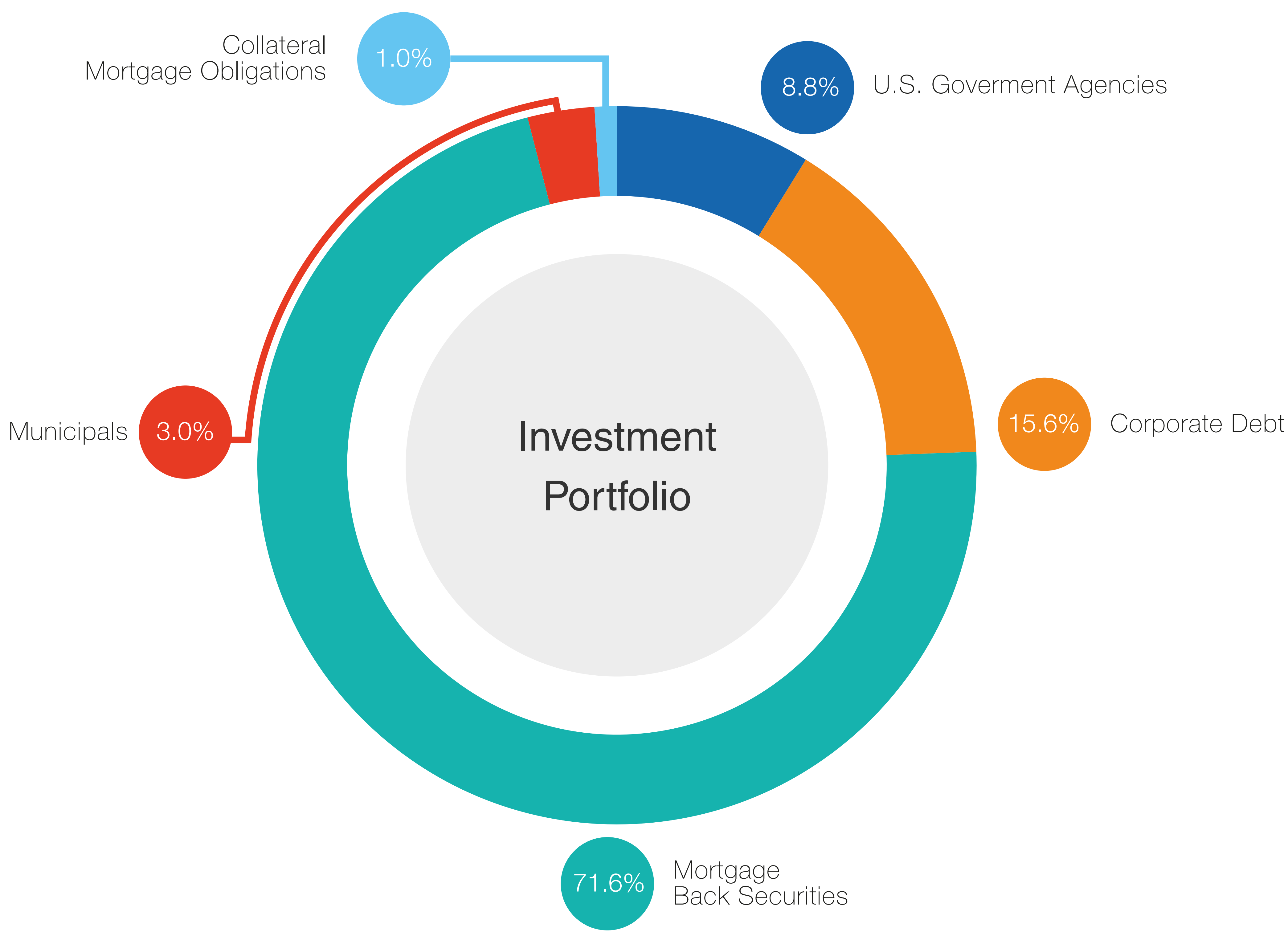
Financial Highlights

Loans



Deposits





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BANESCO USA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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Tel: 305-373-5500
Fax: 305-373-0056
www.bdo.com

1450 Brickell Avenue, 18th Floor
Miami, FL 33131

Independent Auditor's Report

Board of Directors and Stockholders
Banesco USA and Subsidiaries
Miami, Florida

We have audited the accompanying consolidated financial statements of Banesco USA and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banesco USA and its subsidiaries as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Prior Period Consolidated Financial Statements

The consolidated financial statements of Banesco USA and its subsidiaries as of and for the year ended December 31, 2019 were audited by Morrison, Brown, Argiz & Farra, LLC ("MBAF"), whose partners and professional staff joined BDO USA, LLP as of January 16, 2021, and has subsequently ceased operations. MBAF expressed an unmodified opinion on those statements in their report dated April 27, 2020.

BDO USA, LLP

March 29, 2021

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1450 Brickell Avenue, 18th Floor
Miami, FL 33131

Independent Auditor's Report

Board of Directors and Stockholders
Banesco USA and Subsidiaries
Miami, Florida

We have audited Banesco USA and its subsidiaries internal control over financial reporting as of December 31, 2020, 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).

Management's Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and 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 the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes 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 opinion.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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 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 FDICIA, our audit of Banesco USA and its subsidiaries 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 and with the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income ("call report instructions"). 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.

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.

Opinion

In our opinion, Banesco USA and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

Other Matter

We have not examined and, accordingly, we do not express an opinion or any form of assurance on management's statement included in Management's Report on Internal Control Over Financial Reporting referring to compliance with laws and regulations.

Restriction on Use

This report is intended solely for the information and use of management, those charge with governance and others within the organization, the Federal Deposit Insurance Corporation and the Florida Office of Financial Regulation and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

March 29, 2021

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, 2020, 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, 2020, 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
March 29,2021

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

ASSETS		2020		2019
CASH AND CASH EQUIVALENTS:				
Cash and due from banks	$	5,075,243	$	8,170,234
Restricted cash (segregated under Federal and other regulations)		-		426,741
Interest bearing deposits in other financial institutions		98,146,149		53,526,522
TOTAL CASH AND CASH EQUIVALENTS		103,221,392		62,123,497
Investment securities available for sale		334,788,375		263,606,945
Investment securities held to maturity		405,375		546,518
Federal Home Loan Bank stock, at cost		11,533,900		7,534,200
Loans, net		1,409,546,916		1,327,901,088
Property and equipment, net		16,184,414		4,494,162
Accrued interest receivable		10,412,815		5,213,393
Deferred tax assets, net		10,484,746		8,513,533
Bank-owned life insurance		34,715,674		33,649,394
Due form clearing broker		93,301		501,250
Prepaid expenses and other assets		4,370,182		5,045,923
TOTAL ASSETS	**$**	**1,935,757,090**	**$**	**1,719,129,903**

LIABILITIES AND STOCKHOLDERS' EQUITY				
DEPOSITS:				
Noninterest bearing demand deposits	$	589,027,936	$	453,458,030
Interest bearing demand deposits		164,940,893		162,259,752
Money market and savings accounts		282,487,930		248,882,652
Time deposits of $250,000 or more		183,193,558		203,760,599
Time deposits of less than $250,000		279,010,976		334,543,721
TOTAL DEPOSITS		1,498,661,293		1,402,904,754
Securities sold under agreements to repurchase		6,423,221		45,385
Federal Home Loan Bank advances		235,000,000		140,000,000
Subordinated Debt		14,677,920		-
Accrued interest payable		2,380,345		3,978,204
Assignment of lease fee accrual		-		6,500,000
Accrued expenses and other liabilities		10,481,937		11,875,335
TOTAL LIABILITIES		1,767,624,716		1,565,303,678
COMMITMENTS AND CONTINGENCIES (NOTES 13 AND 15)				
STOCKHOLDERS' EQUITY:				
Common stock, $5 par value; 16,000,000 shares authorized in 2020 and 2019; 7,502,701 shares issued and outstanding in 2020 and 2019		37,513,505		37,513,505
Additional paid-in capital		72,726,786		72,726,786
Retained earnings		57,779,210		45,169,499
Accumulated other comprehensive income (loss), net of taxes		112,873		(1,583,565)
TOTAL STOCKHOLDERS' EQUITY		168,132,374		153,826,225
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**1,935,757,090**	**$**	**1,719,129,903**

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,

	2020	2019
INTEREST AND DIVIDEND INCOME:		
Loan and fees on loans	$ 67,316,064	$ 56,636,143
Investment securities	6,702,744	7,053,528
Federal funds sold	726,936	2,471,697
Federal Home Loan Bank stock	528,752	209,583
TOTAL INTEREST AND DIVIDEND INCOME	75,274,496	66,370,951
INTEREST EXPENSES:		
Deposits	11,281,732	16,449,926
Federal Home Loan Bank advances	2,134,790	1,118,592
Subordinated Debt	6,875	-
Other borrowed funds	3,902	11,244
TOTAL INTEREST EXPENSES	13,427,299	17,579,762
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	61,847,197	48,791,189
PROVISION FOR LOAN LOSSES	16,608,271	389,738
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	45,238,926	48,401,451
NONINTEREST INCOME:		
Service fees on loans and deposits	5,520,114	4,375,518
Banked-owned life insurance income	1,066,281	655,017
Gain on sales of investment securities available for sale, (includes $8,941,345 and $4,726,986 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities, respectively)	8,941,345	4,726,986
Gain on resolution of acquired assets	1,276,163	1,216,799
Bargain purchase gain	-	14,504,047
Commissions and other	3,735,086	3,786,251
TOTAL NONINTEREST INCOME	20,538,989	29,264,618
NONINTEREST EXPENSES:		
Salaries and employee benefits	32,292,567	29,783,267
Assignment of lease fee	-	6,500,000
Occupancy	3,806,879	3,795,177
Professional fees	5,168,386	3,424,382
Electronic data processing	3,563,547	3,150,726
Insurance and license fees	862,497	1,332,318
Depreciation and amortization	1,310,551	969,249
Communication	804,322	684,627
Advertising	150,095	526,532
FDIC insurance	1,167,219	506,714
Travel and entertainment	146,980	417,505
Provision for off-balance sheet	139,868	334,276
Acquisition related expenses	-	4,607,146
Other	1,768,707	1,626,155
TOTAL NONINTEREST EXPENSES	51,181,618	57,658,074
INCOME BEFORE INCOME TAXES	14,596,297	20,007,995
PROVISION FOR INCOME TAXES, (includes approximately $2,193,000 and $1,198,000 of income tax expenses from reclassification items, respectively)	1,986,586	1,878,683
NET INCOME	**$ 12,609,711**	**$ 18,129,312**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2020		
NET INCOME		$ 12,609,711
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gains on securities		
Unrealized holding gains arising during period (net of income taxes of approximately $2,744,000)	$ 8,445,187	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $2,193,000)	6,748,749	1,696,438
COMPREHENSIVE INCOME		**$ 14,306,149**
2019		
NET INCOME		$ 18,129,312
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gains on securities		
Unrealized holding 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**

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, 2020 AND 2019

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income (Loss),	
	Shares	Par Value	Capital	Earnings	Net of Taxes	Total
BALANCES AT JANUARY 1, 2019	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
Net income	-	-	-	12,609,711	-	12,609,711
Other comprehensive income	-	-	-	-	1,696,438	1,696,438
BALANCES AT DECEMBER 31, 2020	**7,502,701**	**$ 37,513,505**	**$ 72,726,786**	**$ 57,779,210**	**$ 112,873**	**$ 168,132,374**

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

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,609,711	$ 18,129,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	16,608,271	389,738
Gain on bargain purchase	-	(14,504,047)
Depreciation and amortization	1,310,551	969,249
Net amortization of discounts on investment securities available for sale	3,096,161	2,133,832
Net amortization of discounts on investment securities held to maturity	6,461	7,710
Gain on sales of investment securities avaiable for sale	(8,941,345)	(4,726,986)
Earnings on bank owned life insurance	(1,066,281)	(655,017)
Amortization of deferred loan fees	1,145,442	231,826
Amortization of intangible assets	19,286	6,429
Deferred income tax benefit	(2,545,638)	(1,645,711)
Changes in operating assets and liabilities:		
Accrued interest receivable	(5,199,422)	883,833
Prepaid expenses and other assets	656,455	4,986,387
Accrued interest payable	(1,597,859)	804,370
Assignment of lease, accrued expenses and other liabilities	(7,893,398)	6,563,371
Due from clearing broker	407,949	(501,250)
Unamortized debt issuance cost	(322,080)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,294,264	13,073,046
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(795,917,029)	(385,019,637)
Purchase of Federal Home Loan Bank stock	(3,999,700)	(4,228,000)
Maturities and principal repayments on investment securities available for sale	88,230,073	27,300,814
Principal repayments on investment securities held to maturity	134,682	5,153,416
Proceeds from sales of investment securities available for sale	644,621,573	314,897,593
Purchase of bank owned life insurance	-	(12,000,000)
Net increase in loans	(99,399,540)	(65,522,480)
Cash received, net of cash paid from acquisition (Note 3)	-	69,555,607
Net purchase of property and equipment	(13,000,803)	(1,256,468)
NET CASH USED IN INVESTING ACTIVITIES	(179,330,744)	(51,119,155)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	95,756,539	(39,818,014)
Net increase (decrease) in securities sold under agreements to repurchase	6,377,836	(366,945)
Net increase in Federal Home Loan Bank advances	95,000,000	50,116,816
Net increase in Subordinated Debt	15,000,000	-
Capital contribution	-	17,859,482
NET CASH PROVIDED BY FINANCING ACTIVITIES	212,134,375	27,791,339
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,097,895	(10,254,770)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	62,123,497	72,378,267
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 103,221,392**	**$ 62,123,497**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	**$ 15,025,158**	**$ 16,038,112**
Cash paid for income taxes	**$ 3,917,056**	**$ 6,440,599**

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 6 offices in operation at December 31, 2020 and 7 offices in operation at December 31, 2019. 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, 2020, the Bank owns 100% of Banesco Estate Holdings, LLC, Brickell Global Markets, Inc. ("BGM"), Brickell Global Advisors ("BGA") and Brickell Global Insurance, Inc. ("BGI"), all Florida corporations. In 2020, BGM, BGA and BGI ceased operations and Tagide Properties, Inc ("Tagide") was closed.

As of December 31, 2019, the Bank owned 100% of BGM, a registered broker-dealer, Tagide, a Florida corporation, BGA, which serves as an investment adviser to customers of the Bank, and BGI, a provider of a range of comprehensive insurance solutions.

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, 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 an 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, 2020 and 2019, intangible assets amounted to $109,286 and $128,571, respectively and are included in prepaid expenses and other assets on the accompanying consolidated balance sheets.

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, 2020, the Bank did not hold restricted cash. At December 31, 2019, the Bank had $426,741 in cash held in special reserve account for the exclusive benefit of customers.

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, 2020 and 2019, 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.

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, 2020 and 2019, FHLB stock amounted to $11,533,900 and $7,534,200, 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.

<u>Legacy Loans and Leases</u>:

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.

<u>Purchased Loans</u>:

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)

Loans (continued)

Loan Modifications:

The Bank has implemented various consumer and commercial loan modification programs to provide its borrowers relief from the economic impacts of COVID-19. Based on guidance of the Coronavirus Aid, Relief and Economic Security ("CARES") Act that the Company adopted, COVID-19 related modifications to consumer and commercial loans that were current as of December 31, 2019 are exempt from TDR classification under U.S. GAAP. In addition, the Bank decided to account for these modifications under Section 4013 of the CARES which states that any modification COVID-19 related granted to consumer or commercial loans that were current as of the loan modification program implementation date are not TDRs. The Bank provided borrowers with relief from the economic impacts of COVID-19 through payment deferral and forbearance programs. A significant portion of deferrals expired as of December 31, 2020, reflecting a decline in customer requests for assistance. As of December 31, 2020, the Bank had a total of two loans under deferral with an outstanding balance of $768,503. Subsequent to December 31, 2020, one new request, totaling $262,018 was processed for additional deferral with the remaining loans no longer in need of relief.

Paycheck Protection Program:

The Bank is participating in the Paycheck Protection Program ("PPP"), which is a loan program that originated from the CARES Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP is designed to provide U.S. small businesses with cash-flow assistance through loans fully guaranteed by the Small Business Administration ("SBA"). If the borrowers meet certain criteria and use the proceeds of the loan towards certain eligible expenses, the borrowers' obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the Bank for the principal amount of the loan and any interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with SBA guaranty remaining. As of December 31, 2020, the outstanding balance of PPP loans was approximately $58 million. As compensation for originating the loans, the Bank received lender processing fees from the SBA. Fees and origination costs are capitalized and amortized over the loans' contractual lives and recognized as interest income. Upon forgiveness of a loan and repayment by the SBA, any unrecognized net capitalized fees and costs attributable to the amount of the loan forgiven will be recognized as interest income in that period.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL") (continued)

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 qualitative 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.

During 2020, the Bank established an additional COVID-19 reserve to reflect the probable current losses in the portfolio from the effect on borrowers of the COVID-19 pandemic. The COVID-19 reserve amount was informed by (i) provisions in stress test scenarios conducted by the Bank using Trepp's TCAST stress test model, net of expected loan growth and (ii) IHS Markit macro scenario probability forecasts. During the first and second quarter of 2020, the Bank conducted TCAST stress tests based on the Federal Reserve's 2020 DFAST severely adverse and baseline scenarios. During the fourth quarter of 2020, the Bank updated the TCAST stress tests based on the Federal Reserve's revised scenarios published in September 2020. In September 2020, IHS Markit published updated macro scenario probability forecasts which estimated a high probability of occurrence of 70% for 2 benign scenarios (baseline 50% and optimistic 20%) and a 30% probability for the pessimistic scenario. As of December 31, 2020, the COVID-19 reserve is based on a weighted sum of the provisions in the baseline scenarios (70% weight) and the severely adverse scenarios (30% weight) net of provisions in the stress tests due to budgeted loan growth. The Bank determined that by looking backwards and applying the weighted stress test provisions estimated for prior periods of 2020, it provides an accurate representation of the probable current losses in the portfolio from the effect on borrowers of the COVID-19 pandemic based on the events of 2020 and the current conditions as of December 31, 2020, as well as the underlying credit quality of the Bank portfolio (which has elements similar to stressed scenarios such as forbearances and modifications and to benign environments such as low default rates). In short, the Bank determined that these weighted stress test provisions provided the most accurate representation of probable current losses in the portfolio due to COVID-19 which were not reflected in the existing ASC 450-20, contingencies: loss contingencies or ASC 310-10-35, impairment analysis models due to the masking, by temporary relief such as loan forbearance or modifications, of the underlying credit quality deterioration and inability of those models to fully capture the events of 2020 and current conditions as of December 31, 2020.

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, 2020 and 2019, the allowance for unfunded lending commitments amounts to $1,436,689 and $1,296,821, respectively, and is included in accrued expenses and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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:

Buildings	39 years
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, 2020 and 2019, 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 8).

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, 2020 and 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising Costs are expensed as incurred. At December 31, 2020 and 2019, advertising costs amounted to $150,095 and $526,532, 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

In the first quarter of 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. In an attempt to contain the spread and impact of the COVID-19 pandemic, travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity have been implemented. Additionally, there has been a decline in global economic activity, reduced U.S. and global economic output and a deterioration in macroeconomic conditions in the U.S. and globally. This has resulted in, among other things, high rates of unemployment and underemployment and caused volatility and disruptions in the global financial markets, including the energy and commodity markets. Although some restrictive measures have been eased in certain areas, businesses, market participants, our counterparties and clients, and the U.S. and global economies have been negatively impacted and are likely to be so for an extended period of time, as there remains significant uncertainty about the timing and strength of an economic recovery.

In response to the pandemic, the Bank has implemented protocols and processes to Execute Pandemic Plan and help protect its employees and support its clients. The Bank is managing its response to the COVID-19 pandemic according to its Enterprise Response Framework, which invokes centralized management of the crisis event and the integration of its response. The EVP, Operations Officer and key members of the Bank's Executive team meet regularly to help drive decisions, communications, and consistency of response across all businesses and functions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties (continued)

The Bank also regularly researches the latest guidelines from national, regional and local authorities and health experts, including the U.S. Centers for Disease Control and Prevention (CDC) and the World Health Organization.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act includes many measures to provide relief to companies. The Bank has not taken advantage of any such measures.

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.

Fair Value Measurement

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

The Bank has evaluated subsequent events through March 29, 2021 which is the date the consolidated financial statements were available to be issued.

Adopted Accounting Pronouncements

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the Financial Accounting Standards Board ("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.

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 adoption of this accounting standard update did not have a material impact on the Bank's consolidated financial statements.

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 U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections. The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Lease Accounting (continued)

A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Company's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting.

The Bank is evaluating the method of adoption it will elect. The update was originally effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. During June 2020, the FASB issued an amendment to the update, ASU 2020-05, which deferred the effective date for one year for non-public companies who had not issued their financial statements or made financial statements available for issuance. The Bank is currently evaluating the effect the update will have on its 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.

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.

Reference Rate Return

In March 2020, the FASB issued an accounting standards update related to contracts or hedging relationships that reference LIBOR or other reference rates that are expected to be discontinued due to reference rate reform. The new standard provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by reference rate reform. The Bank has elected to prospectively adopt the new standard whenever a contract modification arises. The Bank is currently evaluating the effect the update will have on existing contracts and its impact on the consolidated financial statements, if any.

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, 2020 and 2019 are as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 30,142,893	$ -	$ (601,284)	$ 29,541,609
Collateralized mortgage obligations	3,327,101	-	(4,178)	3,322,923
Mortgage-backed securities	238,464,400	1,637,007	(259,082)	239,842,325
Municipals	10,232,289	-	(217,389)	10,014,900
Corporate bonds	52,472,148	-	(405,530)	52,066,618
	$ 334,638,831	**$ 1,637,007**	**$ (1,487,463)**	**$ 334,788,375**

	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**

Investment securities pledged to secure borrowings under securities sold under agreements to repurchase had a fair value of approximately $10,154,000 and $3,158,000 at December 31, 2020 and 2019, respectively.

Proceeds from the sales of investment securities available for sale for the years ended December 31, 2020 and 2019 amounted to $644,621,573 and $314,897,593, respectively. For the years ended December 31, 2020 and 2019, there were net gains of $8,941,345 and $4,726,986, 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:

	2020 Securities Available for Sale	
	Amortized Cost	Fair Value
Due after one year through five years	$ 570,248	$ 561,165
Due after five years through ten years	45,562,700	44,970,692
Due after ten years	288,505,883	289,256,518
	$ 334,638,831	**$ 334,788,375**

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, 2020						
U.S. government agencies issued securities	$ 11,399,299	$ (122,217)	$ 18,142,310	$ (479,067)	$ 29,541,609	$ (601,284)
Collateralized mortgage obligations	3,322,923	(4,178)	-	-	3,322,923	(4,178)
Mortgage-backed securities	71,192,498	(255,118)	226,821	(3,964)	71,419,319	(259,082)
Municipals	10,014,900	(217,389)	-	-	10,014,900	(217,389)
Corporate bonds	52,066,618	(405,530)	-	-	52,066,618	(405,530)
	$ 147,996,238	**$ (1,004,432)**	**$ 18,369,131**	**$ (483,031)**	**$ 166,365,369**	**$ (1,487,463)**

	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)
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)**

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, 2020, the Bank had $259,082 in unrealized losses relating to eight 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, 2020, 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, 2020, the Bank had $605,462 in unrealized losses relating to twenty-five 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, 2020, 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, 2020, the Bank had $217,389 in unrealized loss relating to two municipal bonds. As of December 31, 2020, the Bank does not consider the municipal 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.

At December 31, 2020, the Bank had $405,530 in unrealized loss relating to nine corporate bonds. As of December 31, 2020, 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, 2020 and 2019 are as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government sponsored mortgage-backed securities	$ 405,375	$ 7,967	$ -	$ 413,342
	$ 405,375	**$ 7,967**	**$ -**	**$ 413,342**

	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**

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.

	2020					2019
	Legacy Loans	PNCI (1)	Total Loans	PCI (2)	Grand Total	
Land and land development	$ 219,346	$ -	$ 219,346	$ -	$ 219,346	$ 2,190,874
Real estate construction	91,649,092	-	91,649,092	-	91,649,092	77,687,794
Residential real estate	135,961,033	190,345,957	326,306,990	5,854,175	332,161,165	347,584,190
Commercial real estate	727,560,129	13,828,901	741,389,030	2,093,723	743,482,753	672,504,063
Commercial and Industrial	261,855,137	5,165,296	267,020,433	-	267,020,433	239,734,118
Consumer	418,274	-	418,274	-	418,274	831,218
	1,217,663,011	209,340,154	1,427,003,165	7,947,898	1,434,951,063	1,340,532,257
Less:						
Allowance for loan and lease losses	(22,468,788)	-	(22,468,788)	(901,041)	(23,369,829)	(11,946,683)
Deferred loan fees/unamortized discount	(2,034,318)	-	(2,034,318)	-	(2,034,318)	(684,486)
Net Loans	**$ 1,193,159,905**	**$ 209,340,154**	**$ 1,402,500,059**	**$ 7,046,857**	**$ 1,409,546,916**	**$ 1,327,901,088**

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

	2020	2019
Gross loans	$ 1,434,951,063	$ 1,340,532,257
Plus: Accured interest receivable	9,339,061	4,240,697
Less: Unearned income	2,034,318	684,486
Recorded investments in loans	**$ 1,442,255,806**	**$ 1,344,088,468**

The Bank has pledged $390,107,098 and $241,375,224 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2020 and 2019, 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 $23,369,829 and $11,946,683 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2020 and 2019, 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:

Brickell Bank Acquisition
Aug-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, 2020 and 2019.

	December 31, 2020					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 7,517,532	$ 5,854,175	$ 191,314,652	$ 190,345,957	$ 198,832,184	$ 196,200,132
Commercial real estate	2,591,260	2,093,723	13,778,161	13,828,901	16,369,421	15,922,624
Total real estate	$ 10,108,792	$ 7,947,898	$ 205,092,813	$ 204,174,858	$ 215,201,605	$ 212,122,756
Other Loans						
Commercial and Industrial	$ -	$ -	$ 5,144,386	$ 5,165,296	$ 5,144,386	$ 5,165,296
Total other loans	-	-	5,144,386	5,165,296	5,144,386	5,165,296
Total loans	$ 10,108,792	$ 7,947,898	$ 210,237,199	$ 209,340,154	$ 220,345,991	$ 217,288,052

	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

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, 2020:

	PCI	PNCI	Total
Balance at December 31, 2019	$ 5,494,481	$ 1,934,499	$ 7,428,980
Accretable discount arising from acquisition of PCI loans	-	-	-
Accretion during the period	(941,714)	(924,174)	(1,865,888)
Reclassification from non-accretable difference	3,635,049	-	3,635,049
Loan resolution	(1,120,425)	(114,199)	(1,234,624)
Balance as of December 31, 2020	**$ 7,067,391**	**$ 896,126**	**$ 7,963,517**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table summarizes the allowance for loan losses associated with PCI loans:

For the Year Ended December 31, 2020	Residential Real Estate	Commercial Real Estate	Total
Allowance for Loan Losses:			
Balance at beginning of year	$ -	$ -	$ -
Provision for loan losses	870,255	30,786	901,041
Ending Balance	**$ 870,255**	**$ 30,786**	**$ 901,041**
Ending balance: individually evaluated for impairment	$ 870,255	$ 30,786	$ 901,041
Ending balance: collectively evaluated for impairment	$ -	$ -	$ -
Loans:			
Ending balance	$ 5,854,175	$ 2,093,723	$ 7,947,898
Ending balance: individually evaluated for impairment	$ 2,393,895	$ 1,598,144	$ 3,992,039
Ending balance: collectively evaluated for impairment	$ 3,460,280	$ 495,579	$ 3,955,859

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, 2020

	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	$ 11,671	$ 780,766	$ 225,713	$ 8,340,540	$ 2,543,202	$ 10,993	$ 33,798	$ 11,946,683
(Reversal of) provision for loan losses	(8,882)	586,622	4,148,995	5,033,445	5,986,202	(5,354)	(33,798)	15,707,230
Recoveries	-	-	-	5,187	13,772	-	-	18,959
Chargeoffs	-	-	-	(245,759)	(4,956,036)	(2,289)	-	(5,204,084)
Ending Balance	**$ 2,789**	**$ 1,367,388**	**$ 4,374,708**	**$ 13,133,413**	**$ 3,587,140**	**$ 3,350**	**$ -**	**$ 22,468,788**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 1,912,521	$ -	$ 211,288	$ -	$ -	$ 2,123,809
Ending balance: collectively evaluated for impairment	$ 2,789	$ 1,367,388	$ 2,462,187	$ 13,133,413	$ 3,375,852	$ 3,350	$ -	$ 20,344,979
Loans:								
Ending balance	**$ 219,346**	**$ 91,649,092**	**$ 326,306,990**	**$ 741,389,030**	**$ 267,020,433**	**$ 418,274**	**$ -**	**$ 1,427,003,165**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 8,162,941	$ 11,002,748	$ 9,018,267	$ -	$ -	$ 28,183,956
Ending balance: collectively evaluated for impairment	$ 219,346	$ 91,649,092	$ 318,144,049	$ 730,386,282	$ 258,002,166	$ 418,274	$ -	$ 1,398,819,209

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
Provision for (reversal of) 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

The net increase in the allowance in 2020 was mainly due to an allocation for COVID-19 potential losses and due to one commercial and industrial loan which was charged off at year end. The charge off was due to an isolated incident and not due to weakness of a particular industry or due to economic conditions.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

During the year ended December 31, 2020, the provision for loan losses amounted to $16,608,271 and is comprised of $15,707,230 for legacy and PNCI loans and $901,041 for PCI loans. 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 of $15,324 for PCI loans.

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

December 31, 2020		**Special**		
Land and land development and real estate construction	**Pass**	**Mention**	**Substandard**	**Total**
Land and land development	$ 219,346	$ -	$ -	$ 219,346
Real estate construction	91,539,183	109,909	-	91,649,092
Residential real estate				
1-4 family first lien	316,928,054	327,766	8,162,941	325,418,761
1-4 family second lien	888,229	-	-	888,229
Commercial real estate				
Commercial real estate term	530,270,683	51,810,151	1,254,920	583,335,754
Owner occupied commercial real estate	147,622,937	682,511	9,747,828	158,053,276
Commercial and industrial	257,590,267	411,899	9,018,267	267,020,433
Consumer	418,274	-	-	418,274
Total loans	**$ 1,345,476,973**	**$ 53,342,236**	**$ 28,183,956**	**$ 1,427,003,165**

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**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

December 31, 2020

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 219,346	$ -	$ 219,346
Real estate construction	91,649,092	-	91,649,092
Residential real estate			
1-4 family first lien	320,579,092	4,839,669	325,418,761
1-4 family second lien	888,229	-	888,229
Commercial real estate			
Commercial real estate term	583,335,754	-	583,335,754
Owner occupied commercial real estate	154,643,992	3,409,284	158,053,276
Commercial and industrial	259,218,042	7,802,391	267,020,433
Other Loans			
Consumer	418,274	-	418,274
Total loans	**$ 1,410,951,821**	**$ 16,051,344**	**$ 1,427,003,165**

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**

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 1.12% and 0.49% of total loans as of December 31, 2020 and 2019, 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, 2020 and 2019. Certain loans over 90 days or more past due with interest and principal are till accruing.

As of December 31, 2020

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	$ -	$ -	$ -	$ 219,346	$ 219,346	$ -
Real estate construction	-	-	-	91,649,092	91,649,092	-
Residential real estate						
1-4 family first lien	4,926,343	1,555,777	6,482,120	318,936,641	325,418,761	-
1-4 family second lien	-	-	-	888,229	888,229	-
Commercial real estate						
Commercial real estate term	20,581,282	-	20,581,282	562,754,472	583,335,754	-
Owner occupied commercial real estate	-	3,409,284	3,409,284	154,643,992	158,053,276	-
Commercial and industrial	-	6,521,479	6,521,479	260,498,954	267,020,433	-
Other Loans						
Consumer	-	-	-	418,274	418,274	-
Total loans	**$ 25,507,625**	**$ 11,486,540**	**$ 36,994,165**	**$ 1,390,009,000**	**$ 1,427,003,165**	**$ -**

As of December 31, 2019

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**	**$ -**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table includes the recorded investment and unpaid principal balances for impaired Legacy and PNCI 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, 2020

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	$ 6,219,994	$ 6,179,571	$ -	$ 6,045,777	$ 219,176
Commercial real estate term	1,257,764	1,254,920	-	622,828	63,795
Owner occupied commercial real estate	9,746,032	9,747,828	-	8,407,897	440,980
Commercial and industrial	3,044,139	7,628,613	-	1,343,447	62,514
Total	**$ 20,267,929**	**$ 24,810,932**	**$ -**	**$ 16,419,949**	**$ 786,465**
With an allowance recorded:					
1-4 family first lien	$ 1,996,878	$ 1,983,370	$ 1,912,521	$ 506,271	$ 92,861
Commercial real estate term	-	-	-	342,250	-
Commercial and industrial	1,390,119	1,389,654	211,288	4,483,979	30,789
Consumer	-	-	-	6,741	-
Total	**$ 3,386,997**	**$ 3,373,024**	**$ 2,123,809**	**$ 5,339,241**	**$ 123,650**
Impaired Loans by Class Total					
1-4 family first lien	$ 8,216,872	$ 8,162,941	$ 1,912,521	$ 6,552,048	$ 312,037
Commercial real estate term	1,257,764	1,254,920	-	965,078	63,795
Owner occupied commercial real estate	9,746,032	9,747,828	-	8,407,897	440,980
Commercial and industrial	4,434,258	9,018,267	211,288	5,827,426	93,303
Consumer	-	-	-	6,741	-
Total loans	**$ 23,654,926**	**$ 28,183,956**	**$ 2,123,809**	**$ 21,759,190**	**$ 910,115**

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
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
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
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**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

	December 31, 2020	December 31, 2019
Residential real estate		
1-4 family first lien	$ 4,839,669	$ 373,850
Commercial real estate		
Owner occupied	3,409,284	974,433
Commercial and industrial	7,802,391	5,183,691
Total loans	**$ 16,051,344**	**$ 6,531,974**

The following tables present troubled debt restructurings as of December 31, 2020 and 2019:

2020	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Residential real estate			
1-4 family first lien	$ 128,694	$ -	$ 128,694
Commercial real estate			
Commercial real estate term	561,251	-	561,251
Owner occupied commercial real estate	374,758	-	374,758
Total	**$ 1,064,703**	**$ -**	**$ 1,064,703**

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**

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

As of December 31, 2020, there were no newly restructured Legacy and PNCI loans that occurred during the year. The following table presents newly restructured Legacy and PNCI loans that occurred during the year ended December 31, 2019.

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

As of December 31, 2020 and 2019, 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, 2020 and 2019, 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:

	2020	**2019**
Land	$ 4,447,733	$ -
Building	7,348,430	-
Leasehold improvements	5,411,382	5,349,298
Furniture and equipment	3,572,880	3,528,341
Computer equipment and software	4,903,190	4,016,026
Work in progress	707,707	621,139
Art work	352,215	352,215
	26,743,537	13,867,019
Less:		
Accumulated depreciation and amortization	10,559,123	9,372,857
Property and equipment, net	**$ 16,184,414**	**$ 4,494,162**

Depreciation and amortization of property and equipment amounted to $1,310,551 and to $969,249 for the years ended December 31, 2020 and 2019, respectively. On December 4, 2020, the Bank completed the acquisition of a building in Miami for $11,950,000 which will become the new headquarters.

7. DEPOSITS

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	$ 437,223,545
2022	17,921,126
2023	6,955,776
2024	-
2025	104,087
Thereafter	-
	$ 462,204,534

At December 31, 2020 and 2019, overdrafts amounting to $66,163 and $502,419, respectively, were reclassified from demand deposits to loans on the consolidated balance sheets.

8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	2020	**2019**
Securities sold under agreements to repurchase	$ 6,423,221	$ 45,385
Fair value of securities pledged for repurchase agreements	$ 10,154,712	$ 3,157,747
Maximum amount outstanding at any month-end during the year	$ 7,920,458	$ 1,894,231
Average amount outstanding during the year	$ 3,553,342	$ 553,597
Weighted-average interest rate for the year	0.67%	1.03%

All securities sold under agreements to repurchase matured within 30 days of December 31, 2020 and 2019.

9. FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2020 and 2019, the Bank had Federal Home Loan Bank ("FHLB") advances as follows:

Year of Maturity	Interest Rate	2020	2019
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	50,000,000
2030	0.48%	40,000,000	-
2030	0.69%	70,000,000	-
2030	0.90%	75,000,000	-
		$ 235,000,000	**$ 140,000,000**

The FHLB advances agreement requires the Bank to maintain certain loans as collateral for these advances (NOTE 5). At December 31, 2020 and 2019, the Bank was in compliance with this requirement of the FHLB membership agreement. At December 31, 2020 and 2019, FHLB stock held by the Bank amounted to $11,533,900 and $7,534,200, respectively.

The Bank has a line of credit with FHLB of Atlanta that allows drawing up to 25% of total assets. As of December 31, 2020 and 2019, the unused portion of the line amounted to approximately $262,284,500 and $317,878,000, respectively. Additionally, the Bank maintains unused lines of credits with other financial institutions for approximately $35,000,000.

10. INCOME TAXES

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

	2020	2019
Current (Benefit) Expense:		
Federal	$ 2,290,739	$ 1,789,512
State	518,489	434,847
Foreign	1,722,996	1,300,035
	4,532,224	3,524,394
Deferred Expense (Benefit):		
Federal	$ (1,245,967)	$ (1,507,152)
State	(392,796)	(138,559)
Foreign	(906,875)	-
	(2,545,638)	(1,645,711)
Total	**$ 1,986,586**	**$ 1,878,683**

The actual income tax expense for 2020 and 2019 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:

	2020	Effective Tax Rate
Federal taxes at statutory rate	$ 3,065,223	21.0%
State income taxes, net of federal tax benefit	293,798	2.0%
Liquidation of subsidiaries	(674,256)	(4.6%)
Foreign taxes	(116,023)	(0.8%)
Bank-owned life insurance	(223,919)	(1.5%)
Tax exempt income	(2,506)	(0.0%)
Impact of increase of FL corporate income tax rate	(145,743)	(1.0%)
Other, net	(209,988)	(1.5%)
Total	**$ 1,986,586**	**13.6%**

	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%**

10. INCOME TAXES (CONTINUED)

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

	2020	2019
Deferred tax assets:		
Net unrealized loss on securities available-for-sale	$ -	$ 537,754
Allowance for loan losses	6,711,447	2,935,745
Net operating losses	2,330,205	1,667,485
Accruals	452,989	2,322,330
Loan discounts	356,630	716,210
Loan fees	665,088	364,543
Organizational and start-up costs	-	9,189
Non-accrual interest	221,951	36,733
Provision for off balance sheet risk	403,357	318,006
Deferred tax assets	11,141,667	8,907,995
Deferred tax liabilities:		
Net unrealized loss on securities available-for-sale	$ 36,671	$ -
Deposit premiums	-	153,023
Core deposit intangibles	12,358	11,898
Depreciable property	607,892	229,541
Deferred tax liability	656,921	394,462
Net deferred tax asset	**$ 10,484,746**	**$ 8,513,533**

As of December 31, 2020, the Bank had federal and state net operating loss carryforwards remaining of approximately $9,300,000, 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 and projected future taxable income 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 2017.

For the year ended December 31, 2020 and 2019, 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.

11. 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:

	2020	
	Range of Interest Rate	Balance
Loans	4.50% to 5.40%	$ 21,078,123
Deposits	0.00% to 2.15%	42,091,840

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

Interest income and interest expense for the years ended December 31, 2020 and 2019 amounted to $950,640 and $79,956 and $498,452 and $419,728, respectively. For the year ended December 31, 2019 a fee of $6,500,000 was accrued for the assignment of a lease to an affiliate which was paid out in 2020 (Refer to Note 15 Commitments and Contingencies).

12. 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 $664,722 and $647,895 towards the Retirement Plan in 2020 and 2019, respectively.

13. 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.

13. 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, 2020 and 2019 in the amount of $8,461,002 and $25,522,535, respectively. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	2020	2019
	Contract Amount	Contract Amount
Unused lines of credit	$ 170,086,070	$ 150,605,893
Commitment to extend credit	40,210,000	42,849,750
Standby letters of credit	10,429,111	26,022,535

14. 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.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and common equity Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

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.

As of December 31, 2020, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2020 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 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, 2020						
Total risk-based capital (to risk-weighted assets)	$ 196,743,998	14.5%	$ 108,404,767	8.0%	$ 135,505,958	10.0%
Tier 1 capital (to risk-weighted assets)	$ 165,029,998	12.2%	$ 81,303,575	6.0%	$ 108,404,767	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 165,029,998	12.2%	$ 60,977,681	4.5%	$ 88,078,873	6.5%
Tier 1 capital (to average total assets)	$ 165,029,998	8.3%	$ 79,097,630	4.0%	$ 98,872,037	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, 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%

15. 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 $3,122,459 and $3,182,507 for the years ended December 31, 2020 and 2019, 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. In 2020 the Bank entered into a sublease agreement for the Branch location of the assigned Brickell Bank lease from the same affiliate.

At December 31, 2020, future minimum rental commitments under these noncancelable leases were approximately as follows:

Year ending December 31,		
2021	$	1,936,442
2022		1,140,435
2023		1,079,124
2024		1,013,340
2025		1,042,765
Thereafter		3,129,908
	$	**9,342,014**

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.

16. 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.

16. FAIR VALUE MEASUREMENTS (CONTINUED)

Determination of Fair Value (continued)

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, 2020 and 2019.

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 and Held to Maturity - 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.

16. FAIR VALUE MEASUREMENTS (CONTINUED)

Determination of Fair Value (continued)

Deposits - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2020 and 2019. 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, 2020				
U.S. government agencies issued securities	$ -	$ 29,541,609	$ -	$ 29,541,609
Collateralized mortgage obligations	-	3,322,923	-	3,322,923
Mortgage-backed securities	-	239,842,325	-	239,842,325
Corporate bond	-	10,014,900	-	10,014,900
Municipal securities	-	52,066,618	-	52,066,618
	$ -	**$ 334,788,375**	**$ -**	**$ 334,788,375**

	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**

There were no financial liabilities measured at fair value on a recurring basis at December 31, 2020 and 2019.

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, 2020 and 2019, loans deemed to be impaired based on fair value measurement totaled $3,386,997 and $1,718,578, 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.

16. 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, 2020				
Impaired loans	$ -	$ -	$ 3,386,997	$ 3,386,997

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

There were no financial liabilities measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2020:

	2020	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 103,221,392	$ 103,222,086
Investment securities available for sale	334,788,375	334,788,375
Investment securities held to maturity	405,375	413,342
Federal Home Loan Bank stock	11,533,900	11,533,900
Loans, net	1,409,546,916	1,439,788,606
Bank-owned life insurance	34,715,674	34,715,674
Accrued interest receivable	10,412,815	10,412,815
Financial liabilities:		
Demand, money market and saving accounts	$ 1,036,456,759	$ 1,036,456,759
Time deposits	462,204,534	463,430,014
Securities sold under agreements to repurchase	6,423,221	6,423,221
Federal Home Loan Bank advance	235,000,000	229,080,382
Subordinated Debt	14,677,920	16,163,271
Accrued interest payable	2,380,345	2,380,345

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

17. 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 $34,715,674 and $33,649,394 at December 31, 2020 and December 31, 2019 covering certain present and former executives and officers. The Bank is the beneficiary of these policies.

18. REVENUE RECOGNITION

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 Bank'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.

19. SUBORDINATED DEBT

On December 29, 2020, the Bank completed an offering of $15,000,000 in Subordinated Debt with various institutions. The issuance is of a 10-year term, which is callable after the first five years, with fixed semiannual payments at 5.50% for the first five years and floating rate quarterly payments thereafter. The issuance cost amounted to $322,080 and is presented as a direct reduction of the debt payable on the accompanying consolidated balance sheets. The debt issuance cost is amortized over five years, which is the initial call date.

Subordinated Debt	$ 15,000,000
Unamortized Debt Issuance Cost	(322,080)
	$ 14,677,920