Florida Capital Group, Inc.

2019 LETTER TO SHAREHOLDERS

May 1, 2020

Dear Shareholder,

What a difference a year makes! The year 2019 followed on the heels of one of the worst mortgage markets in recent memory. While many historically active mortgage market participants exited the market during 2018, the management of Florida Capital Group, Inc. ("Company") spent the year retooling the mortgage banking operations positioning the Company to take advantage of a future, more vibrant and robust mortgage market. The Company's mortgage banking activities include single-family origination, sales and servicing as well as warehouse lending to smaller mortgage bankers.

All of these efforts paid significant dividends in 2019 as the mortgage market sharply rebounded, and has continued strong during the first few months of the current year. For 2019, the Company originated and sold $1.1 billion of residential mortgages (compared to approximately $747 million in 2018), and warehouse production increased from $2 billion to $4 billion over the same period. Mortgage banking income increased from $13.8 million in 2018 to $22.4 million in 2019. For the same period, interest income from warehouse lending activities increased from $3.4 million to $6.0 million. At the end of 2019, approximately 50% of the Company's total assets were comprised of mortgages held for sale and outstanding warehouse balances.

On the liability side of the Company's balance sheet, the Company's Specialty Banking line of business (formerly Electronic Banking) is no longer an emerging strategy, but has evolved into a significant source of very low cost funds to support mortgage banking origination and lending activities. This line of business commenced in 2017 and ended that year with $31 million of deposits. At year-end 2019, Specialty Banking reported $102 million in deposits (a two-year compound annual growth rate of 81%), virtually all of which were non-interest bearing.

This strategic deposit growth resulted in the Company reporting non-interest bearing deposits of $150 million (approximately 40% of total deposits) at the end of 2019 compared to $86 million in 2018. The management of Specialty Banking continues to seek new markets, and late in 2019 entered the Florida hemp banking market. This market entry is anticipated to be a rich source of core deposit relationships, and presents credit opportunities as well. Strategically, these initiatives enable the Company to continue its migration from comparatively expensive wholesale funding sources to significantly less expensive core deposits.

As a result of the above activity levels, the Company reported net income of $7.12 million for the year ended December 31, 2019 compared to $5.65 million for the prior year, which is a $1.47 million or 26% improvement. However, both years included the impact of certain accounting adjustments associated with the 2018 recognition of a deferred tax asset primarily associated with the Company's financial crisis net operating losses. On a pre-tax basis, the Company reported earnings of $7.12 million in 2019 compared to $1.05 million in 2018. The improved earnings level was primarily attributable to the

Florida Capital Group, Inc.

improved mortgage market and an overall lower cost of funds as discussed above. A more detailed discussion of the 2019 results of operations, including line of business and related financial activity can be found at floridacapitalbank.com.

The commercial bank continues to generate attractive loan relationships and the banking offices continue to generate low cost core deposits. The government guaranteed lending business line remains focused on both SBA and USDA-guaranteed opportunities; however, during 2019 management elected to exit the small balance (less than $350 thousand) market in light of the prospect of future economic uncertainty.

As the last remaining community bank headquartered in Jacksonville, we remain enthusiastic about our business strategy and its many opportunities, and are committed to the board's vision to create a first class banking organization that should generate exceptional shareholder returns. Finally, we wish to thank our employees for their commitment to our shared endeavor, and our shareholders and other stakeholders for their continued support.

W. Andrew Krusen, Jr.
Chairman of the Board

J. Malcolm Jones, Jr.
Vice Chairman and CEO

POSTSCRIPT

What a difference a quarter makes! As the first quarter of 2020 unfolded, the Company anticipated another strong year of reported earnings and enhanced shareholder value. The economy seemed resilient, the mortgage market remained very active, Specialty Banking continued its growth trends and entered a new market, and the commercial bank was originating commercial loans and gathering core deposits. However, during March it became apparent to the entire world that a novel microbe would alter the course for everyone.

The coronavirus pandemic has disrupted our lives and seized control of our livelihoods and our economies. What was clear a few short months ago is now very uncertain – economic growth, the future direction of interest rates, and the possibility of borrower defaults and related credit losses. The U.S. government has enacted legislation to remediate the harmful effects of the economic dislocations caused by the pandemic, but the future remains very uncertain. In consideration of the unknown outcome of the pandemic, and the resulting uncertain future of the economy, the Company increased its provision for loan losses by approximately $400 thousand in the first quarter in order to begin to build reserves that may be needed to absorb future credit losses.

Against this destabilizing backdrop, the Federal Reserve lowered rates once again to their zero boundary levels. For the Company, this is the silver lining to this otherwise disheartening turn of events. The mortgage market is booming once again; however, volatility is now a key feature in the market. During

March, the Federal Reserve's intervention in the financial markets resulted in significant industry-wide hedging losses for all mortgage market participants exposed to interest rate risk. A burgeoning liquidity crisis now threatens servicers, and aggregators have departed the market and created chaos from a price discovery perspective. The extent of price volatility was unprecedented, and, as a result, the Company reported a $1.4 million hedging loss in March 2020. The combination of this hedging loss and the higher provision expense discussed above resulted in the Company reporting a $1.6 loss for the first quarter of 2020.

On a final note, the Company's bank subsidiary, Florida Capital Bank, N.A., entered into a formal agreement with the Office of the Comptroller of the Currency during April 2020 to address certain regulatory issues noted during the October 2019 safety and soundness exam. The Board of Directors and management are disappointed that an alternative course of action could not be worked out, but management is committed to addressing and remediating these regulatory issues.

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY

JACKSONVILLE, FLORIDA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY

JACKSONVILLE, FLORIDA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Florida Capital Group, Inc. and Subsidiary
Jacksonville, Florida

We have audited the accompanying consolidated financial statements of Florida Capital Group, Inc. and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, the auditor considers 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

To the Board of Directors
Florida Capital Group, Inc. and Subsidiary
Jacksonville, Florida

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Florida Capital Group, Inc. and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statement of Financial Condition, Consolidating Statement of Income, Schedules of Adjusted Net Worth (Required by GNMA), Capital Requirement (Required by GNMA), Liquid Asset Requirement (Required by GNMA), Issuer's Parent Adjusted Net Worth (Required by GNMA), and Insurance Coverage (Required by GNMA) are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 26, 2020, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Saltmarsh Cleaveland & Gund

Orlando, Florida
March 26, 2020

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and due from banks	$ 10,919,751	$ 9,077,903
Interest-bearing deposits in banks	27,163,645	15,539,877
Cash and cash equivalents	38,083,396	24,617,780
Securities available for sale	20,001,602	27,038,291
Restricted equity securities, at cost	4,331,813	5,661,741
Loans receivable, net of allowance for loan losses of $2,670,108 in 2019 and $1,956,613 in 2018	316,631,347	270,007,044
Loans held for sale	93,192,928	52,197,104
Accrued interest receivable	1,452,750	1,215,632
Foreclosed real estate	715,895	3,703,158
Premises and equipment, net	485,921	572,076
Cash surrender value of life insurance	10,086,421	10,559,325
Loan servicing rights, net	1,519,296	1,975,602
Deferred tax asset	4,600,170	4,600,170
Other assets	3,823,482	3,927,656
Total Assets	$ 494,925,021	$ 406,075,579

LIABILITIES AND STOCKHOLDERS' EQUITY

	2019	2018
Liabilities:		
Noninterest-bearing demand deposits	$ 149,605,388	$ 86,062,135
Interest-bearing demand deposits	22,602,721	16,169,168
Money market and savings deposits	53,130,721	56,255,437
Time deposits	157,120,582	81,062,111
Total deposits	382,459,412	239,548,851
Federal Home Loan Bank advances	64,300,000	102,000,000
Federal funds purchased	-0-	24,000,000
Repurchase agreements	-0-	1,472,021
Notes payable	150,000	150,000
Accrued interest payable	453,017	420,441
Accrued expense and other liabilities	3,455,831	2,006,931
Total liabilities	450,818,260	369,598,244
Commitments and contingencies	-	-
Stockholders' Equity:		
Preferred stock Series A, 1,000,000 shares authorized; liquidation preference of $20 per share; 139,553 shares issued	2,791,060	2,791,060
Common stock, $0.01 par value; 617,113,408 shares authorized; 617,030,226 issued in 2019 and 2018	6,170,303	6,170,303
Additional paid-in capital	170,053,745	170,053,745
Accumulated deficit	(134,720,236)	(141,838,540)
Treasury stock, 433,630 and 375,763 shares at cost in 2019 and 2018, respectively	(3,769)	(3,191)
Accumulated other comprehensive loss	(184,342)	(696,042)
Total stockholders' equity	44,106,761	36,477,335
Total Liabilities and Stockholders' Equity	$ 494,925,021	$ 406,075,579

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

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Interest Income:		
Loans receivable and fees on loans	$ 18,906,494	$ 14,709,846
Investment securities	563,906	554,131
Interest-bearing deposits in banks	772,811	492,453
Total interest income	20,243,211	15,756,430
Interest Expense:		
Deposits	3,647,871	2,285,663
Other	2,601,818	2,060,567
Total interest expense	6,249,689	4,346,230
Net interest income	13,993,522	11,410,200
Provision for Loan Losses	950,000	-0-
Net interest income after provision for loan losses	13,043,522	11,410,200
Noninterest Income:		
Service charges on deposit accounts	795,404	648,161
Mortgage banking income	22,383,256	13,825,851
Gain on sale of SBA loans	142,526	1,626,398
Other income	2,747,687	2,319,943
Total noninterest income	26,068,873	18,420,353
Noninterest Expense:		
Salaries and employee benefits	21,764,502	18,878,618
Occupancy and equipment expense	1,560,980	1,461,874
Data processing, communications and telephone	2,420,486	2,571,803
Loan related expense	91,811	220,646
Foreclosed real estate expense	223,091	359,290
Mortgage banking related expense	1,857,509	1,294,309
Regulatory fees	321,899	357,107
Professional fees	997,021	896,026
Marketing expense	1,085,893	1,128,545
Other expenses	1,670,899	1,614,460
Total noninterest expense	31,994,091	28,782,678
Income Before Income Taxes	7,118,304	1,047,875
Income Tax Benefit	-0-	4,600,170
Net Income	$ 7,118,304	$ 5,648,045

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

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net Income	$ 7,118,304	$ 5,648,045
Other Comprehensive Income (Loss):		
Unrealized gains (losses) arising during the period on securities available-for-sale	542,603	(68,571)
Reclassification adjustment for net (gains) losses included in net income	(30,903)	8,125
Other comprehensive income (loss)	511,700	(60,446)
Total Comprehensive Income	$ 7,630,004	$ 5,587,599

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

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Preferred Stock Series A	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2018	$ 2,791,060	$ 6,170,303	$ 170,053,745	$ (147,486,585)	$ (1,648)	$ (635,596)	$ 30,891,279
Net income				5,648,045			5,648,045
Other comprehensive loss						(60,446)	(60,446)
Purchase of treasury shares					(1,543)		(1,543)
Balance, December 31, 2018	$ 2,791,060	$ 6,170,303	$ 170,053,745	$ (141,838,540)	$ (3,191)	$ (696,042)	$ 36,477,335
Net income				7,118,304			7,118,304
Other comprehensive income						511,700	511,700
Purchase of treasury shares					(578)		(578)
Balance, December 31, 2019	$ 2,791,060	$ 6,170,303	$ 170,053,745	$ (134,720,236)	$ (3,769)	$ (184,342)	$ 44,106,761

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

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Net income	$ 7,118,304	$ 5,648,045
Adjustments to reconcile net income to net cash		
(used in) provided by operating activities -		
Provision for loan losses	950,000	-0-
Depreciation and amortization	257,769	285,758
Deferred income taxes	1,739,208	235,793
Deferred tax valuation allowance	(1,739,208)	(4,835,963)
Net amortization of securities	136,965	159,170
Net (gain) loss on sale of securities	(30,903)	8,125
Gain on sale of SBA loans	(142,526)	(1,626,398)
Net (gain) loss on sale of foreclosed real estate	(73,014)	21,581
Write-down of foreclosed real estate	194,694	270,000
Loss on disposal of premises and equipment	-0-	34,125
Net gains on sales of loans held for sale	(17,624,794)	(10,248,388)
Loans originated for sale	(1,073,446,457)	(748,514,983)
Proceeds from sales of loans held for sale	1,048,648,201	768,564,137
Net changes in -		
Cash surrender value of life insurance	(204,696)	(249,601)
Loan servicing rights	456,306	(58,453)
Accrued interest receivable and other assets	(132,944)	(248,315)
Accrued interest payable and other liabilities	1,481,476	53,751
Net cash (used in) provided by operating activities	(32,411,619)	9,498,384
Cash Flows From Investing Activities:		
Proceeds from sales of available-for-sale securities	8,044,570	920,396
Principal reductions received on available-for-sale securities	3,557,483	4,597,343
Purchase of available-for-sale securities	(4,159,726)	(5,095,860)
Redemption of restricted equity securities	1,329,928	244,259
Net (increase) decrease in loans	(46,229,946)	10,049,711
Proceeds from the sale of foreclosed real estate	3,090,978	285,752
Net purchases of premises and equipment	(171,614)	(95,287)
Proceeds from bank owned life insurance	677,600	-0-
Net cash (used in) provided by investing activities	(33,860,727)	10,906,314
Cash Flows From Financing Activities:		
Net increase (decrease) in demand and savings deposits	66,852,090	(9,844,079)
Net increase (decrease) in time deposits	76,058,471	(23,241,376)
Net decrease in FHLB advances	(37,700,000)	(7,950,000)
Net (decrease) increase in federal funds purchased	(24,000,000)	24,000,000
Net (decrease) increase in repurchase agreements	(1,472,021)	1,123,863
Net increase in notes payable	-0-	150,000
Purchase of treasury shares	(578)	(1,543)
Net cash provided by (used in) financing activities	79,737,962	(15,763,135)
Net Change in Cash and Cash Equivalents	13,465,616	4,641,563
Cash and Cash Equivalents at Beginning of Year	24,617,780	19,976,217
Cash and Cash Equivalents at End of Year	$ 38,083,396	$ 24,617,780
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 6,217,113	$ 4,272,966
Noncash Transactions:		
Transfers from loans held for sale to portfolio loans	$ 1,427,226	$ 4,974,786
Transfers from loans to foreclosed real estate	$ 225,395	$ -0-

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity:

Florida Capital Group, Inc. (the "Company") is a bank holding company whose only activity is the ownership of its wholly owned subsidiary, Florida Capital Bank, N.A. (the "Bank"). The Bank is a federally chartered commercial bank that provides deposit and lending services in Florida through its four full-service banking offices. In addition, the Bank operates a residential mortgage origination line of business that provides short-term funding for mortgage loans that are originated in 48 states and eventually sold in the secondary market.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and the Bank. All material intercompany transactions and balances have been eliminated in consolidation.

Regulatory Oversight, Capital Adequacy, and Liquidity:

During the fourth quarter of 2019, the Office of the Comptroller of the Currency (the "OCC") performed a Safety and Soundness exam and issued its examination report in the first quarter of 2020. Primarily because of significant growth incurred by the Bank during 2019, the OCC required the Bank to enter into a formal written agreement in March 2020 to enhance risk monitoring processes and procedures, including Board oversight, related to concentration levels, interest rate risk and liquidity risk monitoring. As of December 31, 2019, the Bank met the minimum required regulatory capital ratios for the "well-capitalized" category under the regulatory framework for prompt corrective action.

Accounting Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. These estimates include the allowance for loan losses, fair value of investment securities, fair value of loans held for sale, fair value of derivative instruments, carrying value of foreclosed real estate, and the valuation of any deferred tax assets. Actual results could differ from those estimates.

While management uses available information to recognize losses on loans and to determine the carrying value of foreclosed real estate, further reductions in the carrying amounts of loans and foreclosed real estate may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and the carrying value of foreclosed real estate. Such agencies may require the Bank to recognize additional losses or write-downs based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans and the carrying value of foreclosed real estate may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents:

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and interest-bearing deposits in banks, all of which mature within 90 days.

Securities:

All securities are debt securities, classified as “available for sale” and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

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 available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Equity Securities:

Restricted equity securities consist of stock in the Federal Reserve Bank of Atlanta and in the Federal Home Loan Bank of Atlanta, which are held in accordance with certain lender and/or member requirements and are stated at cost, which approximates market value.

Loans Held for Sale and Mortgage Banking Activities:

Management has elected the fair value option on mortgage loans originated and intended for sale in the secondary market, and as such, loans held for sale are carried at fair value, as determined by current investor yield requirements. Net unrealized gains or losses are charged to operations.

The Bank enters into loan commitments for fixed rate mortgage loans, generally lasting 45 to 90 days and at market rates when initiated. These commitments to originate mortgage loans that the Bank intends to sell are considered derivative instruments.

To deliver closed loans to the secondary market and to moderate its interest rate risk prior to sale, the Bank typically enters into non-exchange traded mandatory delivery forward sales contracts, which are also considered derivative instruments. These contracts are entered into for amounts and terms offsetting the interest rate risk of loan commitment derivatives and loans held for sale, and both are carried at their fair value with changes included in operations.

The Bank retains the servicing rights for a portion of the loans sold. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold, as adjusted for the estimated excess of the servicing fees over the cost of servicing, when the Bank retains the servicing right.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable:

The Bank generally grants real estate, commercial, and consumer loans to customers throughout the state of Florida. From time to time, the Bank also purchases loans in other states or areas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the borrower's area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer and credit card loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or 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 for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. In addition, the Bank may return a loan to accrual status after a period of sustained performance where all payments during the nonaccrual period were applied to reduce the principal balance of the loan and future payments are reasonably assured. Upon return to accrual status, the collected interest applied to the principal balance is accreted into interest income using the interest method as future payments are received.

Allowance for Loan Losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and the volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued):

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 for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank generally does not separately identify individual consumer loans for impairment disclosures.

Derivatives:

Derivative financial instruments are recognized as assets or liabilities and are carried at their fair value with changes through current period earnings. The Company's derivatives consist mainly of interest rate swap agreements, mandatory forward delivery contracts and residential mortgage rate locks, which are used as part of its asset liability management to help manage interest rate risk. The Company does not use derivatives for trading purposes.

Premises and Equipment:

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

Foreclosed Real Estate:

Real estate properties acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Servicing Rights:

Servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Bank are initially measured at fair value at the date of transfer and in subsequent periods. Under the fair value method, mortgage servicing rights are periodically subject to a fair value measurement. Any differences between fair value and amortized cost is recorded to a valuation account which is netted against servicing rights. Capitalized servicing assets are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Advertising:

Advertising costs are expensed as incurred.

Income Taxes:

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various assets and liabilities included in the consolidated statements of financial condition and gives current recognition to changes in tax rates and laws.

The Company and the Bank file consolidated income tax returns, with income tax expense or benefit computed and allocated on a separate return basis.

Credit Related Financial Instruments:

In the ordinary course of business, the Bank has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Dividend Restriction:

Banking regulations impose certain restrictions on the payment of dividends. At December 31, 2019, those restrictions prohibit the Bank from the payment of dividends.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from Contracts with Customers:

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("Accounting Standards Codification ("ASC") Topic 606") ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company concluded ASU 2014-09 did not change the timing or presentation of revenue recognition for its current revenue streams. The majority of the Company's revenues are interest earned and gain on sale of loans, investment securities, and other financial instruments which are unaffected as they are outside the scope of ASU 2014-09.

Some of the Company's non-interest revenue streams, such as service charges on deposit accounts and interchange fees are within the scope of ASU 2014-09. However, ASC Topic 606 focuses on revenues from contracts earned over time. Service charges on deposit accounts, such as ATM fees and stop payment fees, are recognized at the time the transaction is executed. Service charges on deposits such as account maintenance fees are earned over the course of a month and are withdrawn from the customer's account balance at the end of that month. The Company earns interchange fees from debit cardholder transactions through the debit card payment network. These fees represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC Topic 606 implications unless the Company finances the sale of the OREO property. ASC Topic 606 could change the timing of revenue recognition in the case of seller financing.

The contract balances disclosure requirement of ASC Topic 606 is not relevant, as no revenues in the scope of this standard are earned over time that would require the monitoring of contract balances.

Comprehensive Income:

Annual comprehensive income reflects the change in the Company's equity during the year arising from transactions and events other than investment by and distributions to shareholders. The only components of other comprehensive income consist of realized and unrealized gains and losses related to investment securities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements:

On January 1, 2019, the Company adopted ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance requires, among other things, cash receipts resulting from the settlement of bank-owned life insurance policies to be classified as cash inflows from investing activities. Cash payments for premiums on bank-owned life insurance policies may be classified as cash outflows for investing activities, operating activities, or a combination of cash outflows for investing and operating activities. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02 - *Leases (Topic 842)*. The guidance in this topic supersedes the requirements in ASC *Topic 840, Leases*. The update will require business entities to recognize lease assets and liabilities on the balance sheet and to disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. This update clarified the effective date of ASC 2016-02 for nonpublic business entities to fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2021. Adoption of this guidance is expected to increase the assets and liabilities of the Company.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*. This update will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now include forward-looking information in the determination of their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, this update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. This update clarified the effective date of ASC 2016-13 for nonpublic business entities to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early application of ASU 2016-13 will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (continued):

In March 2017, the FASB issued ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. For nonpublic business entities, this update will be effective for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management does not expect adoption of this ASU to have a significant impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the hedge accounting recognition and presentation requirements in ASC 815, *Derivatives and Hedging*. The purpose of this ASU is to better portray a company's risk management activities in its financial statements and simplify the application of hedge accounting guidance. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. This update clarified the effective date of ASC 2017-12 for nonpublic business entities to fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2021. Early adoption is permitted in any interim period after issuance of the ASU. The new standard must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date while the presentation and disclosure guidance is required only prospectively. Management does not expect adoption of this ASU to have a significant impact on the Company’s consolidated financial statements.

Subsequent Events:

Management has evaluated subsequent events through March 26, 2020, the date which the consolidated financial statements were available for issue.

Reclassifications:

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2019 and 2018, was approximately $5,650,000 and $2,769,000, respectively.

NOTE 3 - INVESTMENT SECURITIES

Investment securities have been classified in the consolidated statements of financial condition according to management's intent. The amortized cost of securities available for sale and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019 -				
U.S. government and agency securities	$ 5,145,594	$ 32,682	$ (18,226)	$ 5,160,050
Mortgage-backed securities	10,994,035	122,349	(230,412)	10,885,972
Collateralized mortgage obligations	4,046,315	-0-	(90,735)	3,955,580
	$ 20,185,944	$ 155,031	$ (339,373)	$ 20,001,602
December 31, 2018 -				
U.S. government and agency securities	$ 10,241,327	$ 20,714	$ (211,941)	$ 10,050,100
Mortgage-backed securities	8,084,306	-0-	(253,621)	7,830,685
Collateralized mortgage obligations	5,326,727	-0-	(237,834)	5,088,893
Corporate bonds	4,081,973	2,877	(16,237)	4,068,613
	$ 27,734,333	$ 23,591	$ (719,633)	$ 27,038,291

During 2019, the Bank sold securities available for sale for total proceeds of approximately $8,045,000, resulting in gross gains and losses of $42,782 and $11,879, respectively. During 2018, the Bank sold securities available for sale for total proceeds of approximately $920,000, resulting in gross gains and losses of $-0- and $8,125, respectively.

NOTE 3 - INVESTMENT SECURITIES (Continued)

For purposes of the maturity table, mortgage-backed securities and collateralized mortgage obligations, which are not due at a single maturity date, have been allocated over maturity groupings based on the estimated weighted-average lives of the underlying collateral. All other securities were allocated based on contractual maturities. The mortgage-backed securities and collateralized mortgage obligations may mature earlier than their estimated weighted-average lives because of principal prepayments. The amortized cost and estimated fair value of investment maturities at December 31, 2019, based on the estimated weighted-average lives of the underlying collateral, are summarized below:

	Amortized Cost	Fair Value
Due in one year or less	$ 442,926	$ 442,083
Due from one to five years	12,270,366	12,186,956
Due from five to ten years	7,472,652	7,372,563
	$ 20,185,944	$ 20,001,602

As of December 31, 2019 and 2018, $16 million and $22 million of securities available for sale, respectively, were pledged to secure FHLB advances, public funds and for other purposes required or permitted by law.

NOTE 3 - INVESTMENT SECURITIES (Continued)

Information pertaining to securities available for sale with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2019 -				
U.S. government and agency securities	$ (18,226)	$ 3,173,525	$ -0-	$ -0-
Mortgage-backed securities	-0-	-0-	(230,412)	5,617,848
Collateralized mortgage obligations	-0-	-0-	(90,735)	3,955,580
	$ (18,226)	$ 3,173,525	$ (321,147)	$ 9,573,428
December 31, 2018 -				
U.S. government and agency securities	$ -0-	$ -0-	$ (211,941)	$ 7,381,831
Mortgage-backed securities	(2,958)	1,002,015	(250,663)	6,828,670
Collateralized mortgage obligations	-0-	-0-	(237,834)	5,088,893
Corporate bonds	(16,237)	3,065,736	-0-	-0-
	$ (19,195)	$ 4,067,751	$ (700,438)	$ 19,299,394

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2019 and 2018, these unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other-than-temporary.

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES

The components of loans in the consolidated statements of financial condition were as follows:

	2019	2018
Real estate -		
Commercial	$ 90,669,052	$ 79,116,615
Residential	68,946,433	71,112,868
Construction	9,442,224	11,675,679
Commercial	150,171,481	111,179,875
Consumer and other	1,398,634	203,597
	320,627,824	273,288,634
Deferred loan cost	15,269	105,585
Discount on unguaranteed portion of SBA loans	(1,341,638)	(1,430,562)
Allowance for loan losses	(2,670,108)	(1,956,613)
	$ 316,631,347	$ 270,007,044

The Bank has divided the loan portfolio into five portfolio segments, each with different risk characteristics and methodologies for assessing risk. The portfolio segments identified by the Bank are real estate - commercial, real estate - residential, real estate - construction, commercial, and consumer and other.

Real Estate - Commercial: Commercial real estate loans consist of loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. These loans may be secured by first liens on office buildings, apartments, farms, retail and mixed-use properties, mobile home parks, churches, warehouses and restaurants primarily located within the Bank's market areas. The Bank's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. Commercial real estate loans are larger than residential loans and involve greater credit risk. The repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions also affect the repayment ability to a greater extent than residential real estate loans.

Real Estate - Residential: The Bank originates residential real estate loans for the purchase or refinancing of a mortgage or to provide home equity lines of credit. These loans are collateralized by owner-occupied properties located primarily in the Bank's market areas.

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Real Estate - Construction: These loans are made to borrowers to build commercial structures, a primary or secondary residence and, in some cases, to real estate investors to acquire and develop land. These loans are more difficult to evaluate since they are significantly more vulnerable to changes in economic conditions. In addition, these loans possess a higher degree of credit risk since they are made based on estimates of the future worth of a project and the estimated costs required for completion. The Bank limits its overall investment in this portfolio segment due both to management’s assessment of risk and certain percentage guidance set by the regulatory agencies.

Commercial: Commercial loans consist generally of business loans and lines of credit to companies in the Bank’s market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Such loans are usually collateralized by the financed assets, although a portion may be made on an unsecured basis and contain the guarantee of the business principals. The Bank’s underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. Commercial loans are typically made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business, which makes them of higher risk than residential loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Bank also makes mortgage warehouse lines of credit to mortgage bankers throughout the United States; those lines are collateralized by residential loans and are normally repaid within 30 days from the proceeds of the sale of the loan by the banker. The Bank seeks to minimize these risks through its underwriting standards.

Consumer and Other: Consumer and other loans mainly consist of personal loans, revolving credit plans and other loans. The Bank’s consumer loans may be uncollateralized and rely on the borrower’s income for repayment.

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses:

The following schedule presents a rollforward of the allowance for loan losses as of December 31:

	2019	2018
Balance, beginning of year	$ 1,956,613	$ 2,206,486
Charge-offs:		
Real estate - commercial	(175,081)	(107,326)
Real estate - residential	-0-	(219,600)
Real estate - construction	-0-	-0-
Commercial	(221,876)	(273,243)
Consumer and other	-0-	-0-
Total charge-offs	(396,957)	(600,169)
Recoveries:		
Real estate - commercial	63,703	11,833
Real estate - residential	56,008	243,422
Real estate - construction	1,176	60,453
Commercial	39,565	31,888
Consumer and other	-0-	2,700
Total recoveries	160,452	350,296
Net charge-offs	(236,505)	(249,873)
Provision charged to operations	950,000	-0-
Balance, end of year	$ 2,670,108	$ 1,956,613

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses (Continued):

The following tables present the allocation of loan loss reserves and the recorded investment in loans based on impairment method as of December 31, 2019 and 2018:

	Real Estate - Commercial	Real Estate - Residential	Real Estate - Construction	Commercial	Consumer and Other	Total
December 31, 2019 -						
Reserves allocated for loans:						
Individually evaluated for impairment	$ 15,117	$ -0-	$ 567	$ 428,680	$ -0-	$ 444,364
Collectively evaluated for impairment	731,454	351,882	55,073	1,087,258	77	2,225,744
	$ 746,571	$ 351,882	$ 55,640	$ 1,515,938	$ 77	$ 2,670,108
December 31, 2019 -						
Loans:						
Individually evaluated for impairment	$ 5,464,931	$ 1,398,826	$ 385,350	$ 2,554,711	$ -0-	$ 9,803,818
Collectively evaluated for impairment	85,204,121	67,547,607	9,056,874	147,616,770	1,398,634	310,824,006
	$ 90,669,052	$ 68,946,433	$ 9,442,224	$ 150,171,481	$ 1,398,634	$ 320,627,824

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses (Continued):

	Real Estate - Commercial	Real Estate - Residential	Real Estate - Construction	Commercial	Consumer and Other	Total
December 31, 2018 -						
Reserves allocated						
for loans:						
Individually evaluated						
for impairment	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Collectively evaluated						
for impairment	1,183,639	140,177	58,029	561,892	12,876	1,956,613
	$ 1,183,639	$ 140,177	$ 58,029	$ 561,892	$ 12,876	$ 1,956,613
December 31, 2018 -						
Loans:						
Individually evaluated						
for impairment	$ 7,908,706	$ 970,118	$ 403,512	$ 1,233,877	$ -0-	$ 10,516,213
Collectively evaluated						
for impairment	71,207,909	70,142,750	11,272,167	109,945,998	203,597	262,772,421
	$ 79,116,615	$ 71,112,868	$ 11,675,679	$ 111,179,875	$ 203,597	$ 273,288,634

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans:

The following tables present information on impaired loans disaggregated by class as of December 31, 2019 and 2018, and the average recorded investment and interest income recognized on impaired loans for the years then ended:

	With no Related Allowance Recorded		With an Allowance Recorded		
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2019 -					
Real estate - commercial	$ 4,910,310	$ 5,302,892	$ 554,621	$ 554,621	$ 15,117
Real estate - residential	1,398,826	905,038	-0-	-0-	-0-
Real estate - construction	-0-	-0-	385,350	385,350	567
Commercial	1,697,352	3,160,479	857,359	857,359	428,680
Consumer and other	-0-	-0-	-0-	-0-	-0-
	$ 8,006,488	$ 9,368,409	$ 1,797,330	$ 1,797,330	$ 444,364
December 31, 2018 -					
Real estate - commercial	$ 7,908,706	$ 8,146,116	$ -0-	$ -0-	$ -0-
Real estate - residential	970,118	1,232,725	-0-	-0-	-0-
Real estate - construction	403,512	403,512	-0-	-0-	-0-
Commercial	1,233,877	1,481,327	-0-	-0-	-0-
Consumer and other	-0-	-0-	-0-	-0-	-0-
	$ 10,516,213	$ 11,263,680	$ -0-	$ -0-	$ -0-

	2019		2018	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Real estate - commercial	$ 5,462,899	$ 363,946	$ 5,308,766	$ 241,353
Real estate - residential	1,589,204	61,433	1,594,179	19,980
Real estate - construction	391,639	23,731	409,687	21,831
Commercial	1,578,078	83,797	1,061,481	72,133
Consumer and other	-0-	-0-	-0-	-0-
	$ 9,021,820	$ 532,907	$ 8,374,113	$ 355,297

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued):

The Bank held foreclosed residential real estate at December 31, 2019 and 2018 with a carrying value of $98,520 and $554,694, respectively. The recorded investment in consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at December 31, 2019 and 2018, respectively, was $-0- and $611,773.

The following table provides information about loan modifications considered troubled debt restructurings occurring during 2019:

	Number of Loans	Pre-modified Outstanding Balance	Post-modified Outstanding Balance
December 31, 2019 -			
Real estate - commercial		$ -0-	$ -0-
Real estate - residential		-0-	-0-
Real estate - construction		-0-	-0-
Commercial	1	1,116,000	1,116,000
Consumer and other		-0-	-0-
	1	$ 1,116,000	$ 1,116,000

There were no troubled debt restructurings during 2019 that defaulted as of December 31, 2019. There were no troubled debt restructurings that occurred during 2018.

Credit Quality:

Internal risk-rating grades are assigned to loans by lending, credit administration or loan review personnel, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the portfolio balances. This analysis is performed at least annually. The Bank uses the following definitions for its risk ratings:

Pass. Loans properly approved, documented, collateralized, and performing which do not reflect an abnormal credit risk.

Special Mention. These loans have potential weaknesses and require management's attention. If left uncorrected, these deficiencies could result in the weakening of the borrowers' ability to repay the Bank in the future. The borrower is often more susceptible to adverse economic conditions, has no room for debt expansion and is fully leveraged. The loan review process or loan officers must identify these loans early so that corrective action may be implemented to prevent further deterioration.

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality (Continued):

Substandard. These loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. These loans have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

The tables below set forth credit exposure for the loan portfolio based on internally assigned risk ratings at December 31, 2019 and 2018:

Credit Exposure Based on Risk Ratings:

	Pass	Special Mention	Substandard	Doubtful
December 31, 2019 -				
Loan Category				
Real estate - commercial	$ 86,435,332	$ -0-	$ 4,233,720	$ -0-
Real estate - residential	68,225,007	-0-	721,426	-0-
Real estate - construction	9,442,224	-0-	-0-	-0-
Commercial	145,799,407	902,214	3,469,860	-0-
Consumer and other	1,398,634	-0-	-0-	-0-
	$ 311,300,604	$ 902,214	$ 8,425,006	$ -0-
December 31, 2018 -				
Loan Category				
Real estate - commercial	$ 73,669,489	$ 1,700,938	$ 3,746,188	$ -0-
Real estate - residential	70,034,115	-0-	1,078,753	-0-
Real estate - construction	10,548,906	-0-	1,126,773	-0-
Commercial	109,937,372	613,600	628,903	-0-
Consumer and other	203,597	-0-	-0-	-0-
	$ 264,393,479	$ 2,314,538	$ 6,580,617	$ -0-

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due and Nonaccrual Loans:

The following tables present an aging of past due loans disaggregated by class as of December 31, 2019 and 2018:

	30-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current Loans	Total Loans	Loans > 90 Days and Accruing
December 31, 2019 -						
Real estate - commercial	$ -0-	$ 3,799,548	$ 3,799,548	$ 86,869,504	$ 90,669,052	$ -0-
Real estate - residential	63,959	661,447	725,406	68,221,027	68,946,433	60,052
Real estate - construction	-0-	-0-	-0-	9,442,224	9,442,224	-0-
Commercial	247,668	1,404,828	1,652,496	148,518,985	150,171,481	-0-
Consumer and other	38,631	-0-	38,631	1,360,003	1,398,634	-0-
	$ 350,258	$ 5,865,823	$ 6,216,081	$ 314,411,743	$ 320,627,824	$ 60,052
December 31, 2018 -						
Real estate - commercial	$ -0-	$ 3,291,078	$ 3,291,078	$ 75,825,537	$ 79,116,615	$ 2,238,922
Real estate - residential	627,882	787,896	1,415,778	69,697,090	71,112,868	64,158
Real estate - construction	-0-	-0-	-0-	11,675,679	11,675,679	-0-
Commercial	724,275	245,253	969,528	110,210,347	111,179,875	-0-
Consumer and other	-0-	-0-	-0-	203,597	203,597	-0-
	$ 1,352,157	$ 4,324,227	$ 5,676,384	$ 267,612,250	$ 273,288,634	$ 2,303,080

The following table presents the composition of nonaccrual loans disaggregated by class as of December 31:

	2019	2018
Real estate - commercial	$ 3,799,548	$ 1,052,156
Real estate - residential	601,395	723,738
Real estate - construction	-0-	-0-
Commercial	1,404,828	245,253
Consumer and other	-0-	-0-
	$ 5,805,771	$ 2,021,147

NOTE 4 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due and Nonaccrual Loans (Continued):

Included in the above schedule of past due loans are certain loans that are wholly or partially guaranteed by the United States government. As of December 31, 2019, included in the 30-89 days past due table are approximately $248,000 of gross loan balances, of which approximately $186,000 are guaranteed by the SBA. Included in the non-accrual table are approximately $4,204,000 of gross loan balances, of which approximately $3,565,000 are guaranteed by the SBA.

NOTE 5 - PREMISES AND EQUIPMENT

Components of premises and equipment included in the consolidated statements of financial condition were as follows:

	2019	2018
Leasehold improvements	$ 346,328	$ 1,513,064
Furniture, fixtures, and equipment	1,520,635	1,470,779
Computer software	804,806	781,716
	2,671,769	3,765,559
Less: Accumulated depreciation and amortization	(2,185,848)	(3,193,483)
	$ 485,921	$ 572,076

Depreciation and amortization expense charged to operations amounted to $257,769 in 2019 and $285,758 in 2018.

Leases:

The Company leases certain properties under operating leases. Future minimum lease payments under the noncancelable operating leases are as follows:

2020	$ 768,000
2021	678,000
2022	125,000
Total future minimum lease payments	$ 1,571,000

Rent expense for 2019 and 2018 was approximately $903,000 and $880,000, respectively.

NOTE 6 - LOAN SERVICING RIGHTS

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans were approximately $169,439,000 and $178,854,000 as of December 31, 2019 and 2018, respectively.

Loan servicing rights activity for the years ending December 31, 2019 and 2018 follows:

Residential Loans	2019	2018
Balance, beginning of year	$ 1,157,777	$ 1,269,531
Additions	19,033	154,397
Amortization of servicing rights	(354,425)	(266,151)
Balance, end of year	822,385	1,157,777
SBA Loans		
Balance, beginning of year	$ 817,825	$ 647,618
Additions	88,015	334,440
Amortization of servicing rights	(208,929)	(164,233)
Balance, end of year	696,911	817,825
Total	$ 1,519,296	$ 1,975,602

NOTE 7 - TIME DEPOSITS

The aggregate amount of time deposits at December 31, each with a minimum denomination of $250,000, was approximately $19,880,000 in 2019 and $9,660,000 in 2018.

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

2020	$ 114,736,359
2021	7,995,973
2022	33,311,306
2023	456,721
2024	620,223
	$ 157,120,582

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

The maturity and interest rate on the Federal Home Loan Bank ("FHLB") advances are as follows:

Maturity	Interest Rate at December 31, 2019	At December 31, 2019	At December 31, 2018
03/29/2019	2.65%	$ -0-	$ 77,000,000
03/31/2020	1.78%	39,300,000	-0-
07/07/2021	4.24%	25,000,000	25,000,000
		$ 64,300,000	$ 102,000,000

As of December 31, 2019, the advances are collateralized by approximately $8.1 million of the Bank's available-for-sale securities as well as qualifying commercial and residential real estate loans with a carrying value of approximately $120.8 million, pledged as collateral under a blanket floating line agreement. As of December 31, 2019, the Bank had $64.6 million of remaining available line with FHLB based on the availability of qualifying collateral.

NOTE 9 - SHORT-TERM BORROWINGS

The Bank sells securities under agreements to repurchase to certain customers. These borrowings are collateralized by securities discussed in Note 3. At December 31, 2019, the Bank had no repurchase agreements. At December 31, 2018, amounts outstanding under these agreements totaled $1,472,021. The average outstanding balance during 2018 was approximately $1,650,000 and the average interest rate was .75%.

NOTE 10 - NOTES PAYABLE

In 2018, in relation to the settlement of an outstanding legal matter, the Company borrowed a total of $150,000 from nine directors and issued unsecured promissory notes which bear interest at 8%. All accrued and unpaid interest, together with the unpaid principal balance is due on the closing of a Change of Control.

NOTE 11 - STOCKHOLDERS' EQUITY

During 2019 and 2018, the Company acquired an additional 57,867 and 154,341 common shares of treasury stock, respectively.

NOTE 12 - INCOME TAXES

The provision for income taxes consists of the following:

	2019	2018
Current tax:		
Federal	$ -0-	$ -0-
State	-0-	-0-
	-0-	-0-
Deferred tax provision:		
Federal	1,190,994	185,748
State	548,214	50,045
	1,739,208	235,793
Valuation allowance	(1,739,208)	(4,835,963)
	$ -0-	$ (4,600,170)

Deferred taxes are provided using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company recorded a 100% deferred tax valuation allowance in prior years related to various temporary differences, principally consisting of the provision for loan losses and its net operating loss carryforwards. In 2019 and 2018, based on an updated projections of future taxable income, the Company released portions of the valuation allowance.

NOTE 12 - INCOME TAXES (Continued)

The components of deferred taxes at December 31 are summarized as follows:

	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	$ 3,787,268	$ 5,375,022
Allowance for loan losses	654,710	496,001
Foreclosed real estate	112,838	425,674
Other	438,517	453,724
	4,993,333	6,750,421
Deferred tax liabilities:		
Other	(132,371)	(150,251)
Deferred tax valuation allowance	(260,792)	(2,000,000)
Net deferred tax asset	$ 4,600,170	$ 4,600,170

At December 31, 2019, the Company had federal net operating loss carry-forwards of approximately $15.5 million that that begin to expire in 2032. At December 31, 2019, the Company had state net operating losses in amounts, and for carryforward periods, that vary for each of the state jurisdictions in which returns are filed.

NOTE 13 - MORTGAGE BANKING INCOME

Components of mortgage banking income for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Gain on sale of loans	$ 20,185,399	$ 10,871,708
Loans held for sale fair value adjustment	(1,219,508)	533,014
Origination fees and charges	4,758,462	3,577,463
Settlement fees and other charges	(1,341,097)	(1,156,334)
	$ 22,383,256	$ 13,825,851

NOTE 14 - EMPLOYEE BENEFIT PLAN

The Bank has a 401(k) plan (the "Plan") for its employees, under which employees can make contributions up to IRS limits of their compensation. The Company may elect to provide a discretionary matching contribution as approved by the Board of Directors. The charge to operations for the Bank's discretionary match was approximately $214,000 and $115,000 for 2019 and 2018, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Credit Related Financial Instruments:

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 and letters of credit. These financial instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
Commitments to extend credit	$ 16,099,000	$ 29,519,000
Letters of credit	$ 864,000	$ 280,000

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

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 may be uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Credit Related Financial Instruments (Continued):

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral for those commitments for which collateral is deemed necessary.

The Bank has not incurred any losses on its commitments in 2019 or 2018.

Lines of Credit:

At December 31, 2019, the Bank has unsecured federal funds lines of credit of approximately $34 million from correspondent banks. As of December 31, 2019, there were no outstanding draws under any of these lines. As of December 31, 2018, all lines of credit were fully drawn.

Other:

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

NOTE 16 - CONCENTRATIONS

At various times throughout the year, the Bank maintains cash balances with other financial institutions which exceed federally insured limits. The Bank monitors the capital adequacy of these financial institutions on a quarterly basis.

NOTE 17 - RELATED PARTY TRANSACTIONS

The Bank has entered into various credit arrangements with its directors, significant shareholders, and their affiliates (related parties). Loans to related parties during 2019 and 2018 were as follows:

	2019	2018
Beginning balance	$ 1,549,034	$ 2,997,635
New loans during the year	2,919,691	300,000
Repayments during the year	(2,516,031)	(1,748,601)
Ending balance	$ 1,952,694	$ 1,549,034

NOTE 17 - RELATED PARTY TRANSACTIONS (Continued)

Also, certain related parties maintain deposit balances with the Bank in the aggregate amount of approximately $12,022,000 and $17,838,000 at December 31, 2019 and 2018, respectively.

NOTE 18 - REGULATORY MATTERS

Regulatory Agreements:

As discussed in Note 1, in March 2020, the Bank entered into a written agreement (the “Agreement”) with the OCC. The Agreement is a formal agreement for the Bank to take corrective actions, consistent with sound banking practices, to enhance risk monitoring processes and procedures, including Board oversight, related to concentration levels, interest rate risk and liquidity risk monitoring in order to ensure the Bank’s future compliance with all applicable laws, rules, regulations, and regulatory policy statements.

Capital Requirements:

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under the regulatory 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 capital amounts and classification under prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total capital, Tier I capital and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). As of December 31, 2019, the Bank met the minimum regulatory capital ratios to be categorized as “well-capitalized” under the regulatory framework for prompt corrective action. Management believes as of December 31, 2019, the Bank meets all capital adequacy requirements to which it is subject. There were no subsequent conditions or events that management believes have changed the Bank’s category.

NOTE 18 - REGULATORY MATTERS (Continued)

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

	Actual		Minimum Capital Requirement:		Minimum To Be Well Capitalized:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Total Capital (to Risk Weighted Assets)	$ 43,270,000	12.29%	≥ $ 28,176,000	≥ 8.00%	$ 35,221,000	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$ 40,600,000	11.53%	≥ $ 21,132,000	≥ 6.00%	$ 28,176,000	≥ 8.00%
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 40,600,000	11.53%	≥ $ 15,849,000	≥ 4.50%	$ 22,893,000	≥ 6.50%
Tier I Capital (to Average Assets)	$ 40,600,000	8.03%	≥ $ 20,220,000	≥ 4.00%	$ 25,275,000	≥ 5.00%
As of December 31, 2018:						
Total Capital (to Risk Weighted Assets)	$ 33,870,000	11.54%	≥ $ 23,485,000	≥ 8.00%	$ 29,356,000	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$ 32,711,000	11.14%	≥ $ 17,613,000	≥ 6.00%	$ 23,485,000	≥ 8.00%
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 32,711,000	11.14%	≥ $ 13,210,000	≥ 4.50%	$ 19,081,000	≥ 6.50%
Tier I Capital (to Average Assets)	$ 32,711,000	8.81%	≥ $ 14,852,000	≥ 4.00%	$ 18,565,000	≥ 5.00%

NOTE 19 - FAIR VALUE MEASUREMENT

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement describes three levels of inputs that may be used to measure fair value: Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. Level 3: Significant unobservable inputs that reflect a corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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. Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products. Most of the Bank's available-for-sale securities fall into Level 2 of the fair value hierarchy. These securities are generally priced via independent service providers. In obtaining such valuation information, the Bank has evaluated the valuation methodologies used to develop the fair values. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Loans Held for Sale and Derivative Financial Instruments. The fair value of loans held for sale is based on locked-in forward sales commitments for the actual loans with third parties (Level 2 inputs). The Company has elected to account for loans held for sale at fair value. The unrealized gain (loss) of loans held for sale is included in mortgage banking income in the consolidated statements of operations. The fair value of derivative financial instruments is based on derivative valuation models using market data inputs as of the valuation date (Level 2 inputs).

NOTE 19 - FAIR VALUE MEASUREMENT (Continued)

Impaired Loans. A loan is considered to be impaired when it is probable the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. In most cases, the Bank measures fair value based on the value of the collateral securing the loan. Collateral may be in the form of real estate and/or business or personal assets, including but not limited to equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The fair value of real estate collateral is determined based on third party appraisals by qualified licensed appraisers as well as internal estimates. The fair value of other business or personal assets is generally based on amounts reported on the financial statements of the customer or customer's business. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation and management's knowledge of the customer and the customer's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified.

Foreclosed Real Estate. Estimates of fair values are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Bank's management related to values of properties in the Bank's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, the fair value estimates for foreclosed real estate are classified as Level 3.

Servicing Rights. The fair value of mortgage and SBA loan servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income.

NOTE 19 - FAIR VALUE MEASUREMENT (Continued)

The following table presents the financial instruments carried at fair value as of December 31, 2019 and 2018, by caption on the consolidated statements of financial condition and by the valuation hierarchy (as described above):

Assets and liabilities measured at fair value on a recurring basis are as follows:

	Total carrying value in the consolidated statements of financial condition	Quoted market prices in an active market (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)
December 31, 2019 -				
Assets:				
Securities available for sale	$ 20,002,000	$ -0-	$ 20,002,000	$ -0-
Loans held for sale	93,193,000	-0-	93,193,000	-0-
Derivatives	1,082,000	-0-	1,082,000	-0-
Liabilities:				
Derivatives	509,000	-0-	509,000	-0-
December 31, 2018 -				
Assets:				
Securities available for sale	$ 27,038,000	$ -0-	$ 27,038,000	$ -0-
Loans held for sale	52,197,000	-0-	52,197,000	-0-
Derivatives	688,000	-0-	688,000	-0-
Liabilities:				
Derivatives	1,107,000	-0-	1,107,000	-0-

NOTE 19 - FAIR VALUE MEASUREMENT (Continued)

Assets and liabilities measured at fair value on a nonrecurring basis are as follows:

	Total carrying value in the consolidated statements of financial condition	Quoted market prices in an active market (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)
December 31, 2019 -				
Impaired loans, net of specific reserves	$ 9,359,000	$ -0-	$ -0-	$ 9,359,000
Foreclosed real estate	716,000	-0-	-0-	716,000
Loan servicing rights	1,519,000	-0-	-0-	1,519,000
December 31, 2018 -				
Impaired loans, net of specific reserves	$ 10,516,000	$ -0-	$ -0-	$ 10,516,000
Foreclosed real estate	3,703,000	-0-	-0-	3,703,000
Loan servicing rights	1,976,000	-0-	-0-	1,976,000

There were no transfers between levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

NOTE 20 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into interest rate swaps in order to provide commercial loan clients the ability to swap from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan with a client in addition to a swap agreement. This swap agreement effectively converts the client's variable rate loan into a fixed rate. The Company then enters into a matching swap agreement with a third-party dealer in order to offset its exposure on the customer swap. As of December 31, 2019 and 2018, the notional amount of such arrangements was $341,000 and $412,000, respectively, and investment securities with a fair value of approximately $418,000 and $465,000 were pledged as collateral to the third party dealers. As the interest rate swaps with the clients and third parties are not designated as hedges under ASC 815, the instruments are marked to market in earnings; however, as the interest rate swaps are structured to offset each other, changes in market values have no earnings impact.

NOTE 20 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically offset the effect of changes in interest rates from its commitment to fund the loans. All derivative instruments are recognized in the consolidated statements of financial condition at their fair value. At December 31, 2019, the notional amount of the interest rate lock commitments and forward commitments were approximately $61.2 million and $76.5 million, respectively.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Company's exposure is limited to the replacement value of the contracts rather than the notional, principal, or contract amounts. The Company minimizes credit risk through credit approvals, limits, and monitoring procedures. The following tables summarize the fair value of derivative instruments used by the Company as of December 31, 2019:

	Classification	Fair Value
Asset derivatives:		
Customer interest rate swaps	Other Assets	$ 340,543
Mortgage banking derivatives	Other Assets	741,575
Liability derivatives:		
Dealer interest rate swaps	Other Liabilities	$ 340,543
Mortgage banking derivatives	Other Liabilities	168,848

The recognition of the gains and losses on the interest rate contract assets and liabilities offset, and therefore, there is no material impact on the consolidated statements of income. The gains and losses of the mortgage banking derivatives are netted with the gain on sale of loans.

The weighted-average interest rates received and paid for interest rate swaps outstanding at December 31, 2019 were as follows:

	Interest Rate Received	Interest Rate Paid
Customer interest rate swaps	7.39%	4.71%
Dealer interest rate swaps	4.71%	7.39%

NOTE 21 - SUBSEQUENT EVENT

Subsequent to December 31, 2019, the Coronavirus Disease (COVID-19) became a pandemic. As a result, economic uncertainties have arisen that may affect the Company's operations. The impact of those uncertainties on the accompanying consolidated financial statements cannot be estimated.

SUPPLEMENTARY INFORMATION

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2019

ASSETS

	Bank	Holding Company	Eliminating Entries	Consolidated
Cash and due from banks	$ 10,919,751	$ 10,329	$ (10,329)	$ 10,919,751
Interest-bearing deposits in banks	27,163,645			27,163,645
Cash and cash equivalents	38,083,396	10,329	(10,329)	38,083,396
Securities available for sale	20,001,602			20,001,602
Restricted equity securities, at cost	4,331,813			4,331,813
Loans receivable, net of allowance for loan losses	316,631,347			316,631,347
Loans held for sale	93,192,928			93,192,928
Accrued interest receivable	1,452,750			1,452,750
Foreclosed real estate	715,895			715,895
Premises and equipment, net	485,921			485,921
Cash surrender value of life insurance	10,086,421			10,086,421
Investment in Subsidiary	-0-	44,246,432	(44,246,432)	-0-
Loan servicing rights, net	1,519,296			1,519,296
Deferred tax asset	4,600,170			4,600,170
Other assets	3,823,482			3,823,482
Total Assets	$ 494,925,021	$ 44,256,761	$ (44,256,761)	$ 494,925,021

LIABILITIES AND STOCKHOLDERS' EQUITY

	Bank	Holding Company	Eliminating Entries	Consolidated
Liabilities:				
Noninterest-bearing demand deposits	$ 149,615,717	$	$ (10,329)	$ 149,605,388
Interest-bearing demand deposits	22,602,721			22,602,721
Money market and savings deposits	53,130,721			53,130,721
Time deposits	157,120,582			157,120,582
Total deposits	382,469,741	-0-	(10,329)	382,459,412
Federal Home Loan Bank advances	64,300,000			64,300,000
Notes payable	-0-	150,000		150,000
Accrued interest payable	453,017			453,017
Accrued expenses and other liabilities	3,455,831			3,455,831
Total liabilities	450,678,589	150,000	(10,329)	450,818,260
Stockholders' Equity:				
Preferred stock Series A	-0-	2,791,060		2,791,060
Common stock	775,000	6,170,303	(775,000)	6,170,303
Additional paid-in capital	165,776,085	170,053,745	(165,776,085)	170,053,745
Accumulated deficit	(122,120,311)	(134,720,236)	122,120,311	(134,720,236)
Treasury stock	-0-	(3,769)		(3,769)
Accumulated other comprehensive loss	(184,342)	(184,342)	184,342	(184,342)
Total stockholders' equity	44,246,432	44,106,761	(44,246,432)	44,106,761
Total Liabilities and Stockholders' Equity	$ 494,925,021	$ 44,256,761	$ (44,256,761)	$ 494,925,021

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2019

	Bank	Holding Company	Eliminating Entries	Consolidated
Interest Income:				
Loans receivable and fees on loans	$ 18,906,494	$	$	$ 18,906,494
Investment securities	563,906			563,906
Interest-bearing deposits in banks	772,811			772,811
Total interest income	20,243,211	-0-	-0-	20,243,211
Interest Expense:				
Deposits	3,647,871			3,647,871
Other	2,601,818			2,601,818
Total interest expense	6,249,689	-0-	-0-	6,249,689
Net interest income	13,993,522	-0-	-0-	13,993,522
Provision for Loan Losses	950,000			950,000
Net interest income after provision for loan losses	13,043,522	-0-	-0-	13,043,522
Noninterest Income:				
Equity in earnings of subsidiary	-0-	7,119,554	(7,119,554)	-0-
Service charges on deposit accounts	795,404			795,404
Mortgage banking income	22,383,256			22,383,256
Gain on sale of SBA loans	142,526			142,526
Other income	2,747,687			2,747,687
Total noninterest income	26,068,873	7,119,554	(7,119,554)	26,068,873
Noninterest Expense:				
Salaries and employee benefits	21,764,502			21,764,502
Occupancy and equipment expense	1,560,980			1,560,980
Data processing, communications and telephone	2,420,486			2,420,486
Loan related expense	91,811			91,811
Foreclosed real estate expense	223,091			223,091
Mortgage banking related expense	1,857,509			1,857,509
Regulatory fees	321,899			321,899
Professional fees	997,021			997,021
Marketing expense	1,085,893			1,085,893
Other expenses	1,669,649	1,250		1,670,899
Total noninterest expense	31,992,841	1,250	-0-	31,994,091
Income Before Income Taxes	7,119,554	7,118,304	(7,119,554)	7,118,304
Income Taxes	-0-	-0-	-0-	-0-
Net Income	$ 7,119,554	$ 7,118,304	$ (7,119,554)	$ 7,118,304

FLORIDA CAPITAL BANK, N.A.
SUPPLEMENTAL SCHEDULE OF ADJUSTED NET WORTH (REQUIRED BY GNMA)
DECEMBER 31, 2019

Adjusted Net Worth Calculations				
Stockholders' equity per balance sheet at end of reporting period			$	44,246,432
Less				
Itemized unacceptable assets				
1. Other assets	$	3,823,482		
2. Deferred tax assets		4,600,170		
3. Unrealized gain on marketable securities		155,031		
Total unacceptable assets				8,578,683
Adjusted net worth				35,667,749
Required Net Worth Calculation				
Unpaid principal balance of securities outstanding	$	583,000		
Plus				
Outstanding balance of commitments authority issued and requested		917,000		
Total outstanding portfolio and authority		1,500,000		
Required net worth ($2.5 million plus .35% of commitment authority)				2,505,250
Excess Net Worth			$	33,162,499

FLORIDA CAPITAL BANK, N.A.
SUPPLEMENTAL SCHEDULE OF CAPITAL REQUIREMENT (REQUIRED BY GNMA)
DECEMBER 31, 2019

Capital Requirement for Depository Institutions

(Amounts per Bank's Call Report, Schedule RC and RCR)

Tier 1 capital	$	40,600,000	
Total capital		44,246,432	
Risk-based assets		352,206,000	
Total assets		494,925,021	
Tier 1 capital/total assets			8.20%
Tier 1 capital/risk-based assets			11.53%
Total capital/risk-based assets			12.56%
			Meets requirement?
5% of tier 1 capital/total assets		24,746,251	*Yes*
6% of tier 1 capital/risk-based assets		21,132,360	*Yes*
10% of total capital/risk-based assets		35,220,600	*Yes*

FLORIDA CAPITAL BANK, N.A.
SUPPLEMENTAL SCHEDULE OF LIQUID ASSET REQUIREMENT (REQUIRED BY GNMA)
DECEMBER 31, 2019

Liquid Asset Calculation

Required net worth		$ 2,505,250
Acceptable liquid assets		
1. Cash (excluding cash in escrow)	$ 38,083,396	
Total liquid assets		$ 38,083,396

Required Liquid Asset

		Meets requirement?
Single-family issuer liquidity requirement		
(Greater of $1,000,000 or .10% of outstanding single-family securities)	$ 1,000,000	*Yes*

FLORIDA CAPITAL BANK, N.A.
SUPPLEMENTAL SCHEDULE OF ISSUER'S PARENT
ADJUSTED NET WORTH (REQUIRED BY GNMA)
DECEMBER 31, 2019

Adjusted Net Worth Calculations				
Stockholders' equity per balance sheet at end				
of reporting period			$	44,106,761
Less				
Itemized unacceptable assets				
1. Other assets	$	3,823,482		
2. Deferred tax assets		4,600,170		
3. Unrealized gain on marketable securities		155,031		
Total unacceptable assets				8,578,683
Adjusted net worth				35,528,078
Required Net Worth Calculation				
Unpaid principal balance of securities outstanding	$	583,000		
Plus				
Outstanding balance of commitments authority issued				
and requested		917,000		
Total outstanding portfolio and authority		1,500,000		
Required net worth ($2.5 million plus .35% of commitment authority)				2,505,250
Excess Net Worth			$	33,022,828

FLORIDA CAPITAL BANK, N.A.
SUPPLEMENTAL SCHEDULE OF INSURANCE COVERAGE (REQUIRED BY GNMA)
DECEMBER 31, 2018

Identification of Affiliated GNMA Issuers

Affiliated GNMA issuers		Florida Capital Bank, N.A. #4395
Affiliated issuers on same insurance policies		None

Required Insurance Calculation

Servicing portfolio:		
GNMA	$ 583,000	
FNMA	27,367,000	
FHLMC	96,111,000	
Conventional (other)	45,378,000	
Total servicing portfolio		169,439,000
Plus: Second mortgages and loans in process - net		-0-
		$ 169,439,000
Required fidelity bond coverage		$ 404,159
Required mortgage servicing errors and omissions coverage		$ 404,159

Verification of Insurance Coverage

Fidelity bond coverage at end of reporting period	$ 5,000,000
Mortgage servicing errors and omissions coverage at end of reporting period	$ 1,000,000

Excess Insurance Coverage

Fidelity bond coverage	$ 4,595,841
Mortgage servicing errors and omissions coverage	$ 595,841

GNMA Loss Payable Endorsement

Fidelity bond coverage	Yes
Mortgage servicing errors and omissions coverage	Yes

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS*

To the Board of Directors
Florida Capital Group, Inc. and Subsidiary
Jacksonville, Florida

Report on Compliance for Major HUD Program

We have audited Florida Capital Bank, N.A.'s (the "Bank") compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") that could have a direct and material effect on each of the Bank's major U.S. Department of Housing and Urban Development ("HUD") programs for the year ended December 31, 2019. The Bank's major HUD programs and the related direct and material compliance requirements are as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
Ginnie Mae Issuers of Mortgage-Backed Securities	• *Reporting adjusted net worth calculation*

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Bank's major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about the Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Board of Directors
Florida Capital Group, Inc. and Subsidiary
Jacksonville, Florida

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD programs. However, our audit does not provide a legal determination of the Bank's compliance.

Opinion on Each Major HUD Program

In our opinion, the Bank complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Bank is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bank's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Saltmarsh Cleaveland & Gund

Orlando, Florida
March 26, 2020

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Florida Capital Group, Inc. and Subsidiary
Jacksonville, Florida

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Florida Capital Group, Inc. (the "Company") and its wholly-owned subsidiary, Florida Capital Bank, N.A. (the "Bank"), which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company and the Bank's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Company and the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of Company and the Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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To the Board of Directors
Florida Capital Group, Inc. and Subsidiary
Jacksonville, Florida

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company and the Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Saltmarsh Cleaveland & Gund

Orlando, Florida
March 26, 2020

FLORIDA CAPITAL GROUP, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2019

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.