SAVI FINANCIAL CORPORATION, INC.
AND SUBSIDIARY
BURLINGTON, WASHINGTON

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2018 AND 2017

C O N T E N T S

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the
Board of Directors
of Savi Financial Corporation, Inc.
Burlington, Washington

Opinion on the Financial Statements

We have audited the accompanying consolidated financial statements of Savi Financial Corporation and Subsidiary which comprise the balance sheets as of December 31, 2018 and 2017, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2018, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements"). We have also audited the accompanying balance sheets of SaviBank as of December 31, 2018 and 2017 and the related statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation and the Bank as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As a part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion.

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

We have served as the Corporation's auditor since 2007.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 48-49 is presented for the purposes of additional analysis and is not a required part of the 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. Such 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 other financial information is fairly stated in all material aspects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
May 7, 2019

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and due from banks - Note 2	$ 4,480,455	$ 2,860,735
Interest-bearing deposits with financial institutions	9,430,785	9,885,556
Cash and cash equivalents	13,911,240	12,746,291
Investment securities - Note 3	11,090,909	9,978,557
Federal Home Loan Bank stock, at cost - Note 2	1,340,900	583,700
Pacific Coast Bankers' Bank stock, at cost - Note 2	190,000	190,000
Loans receivable, net of allowance for loan losses and deferred loan fees - Note 4	225,348,584	181,900,351
Other real estate owned	430,989	470,723
Premises and equipment, net - Note 6	11,707,672	7,541,987
Accrued interest receivable	653,023	530,699
Deferred tax asset - Note 8	1,751,266	2,347,219
SBA servicing asset - Note 5	689,285	524,626
Other assets	609,601	477,316
Total Assets	$ 267,723,469	$ 217,291,469
LIABILITIES		
Deposits - Note 7	$ 208,437,117	$ 178,273,874
Federal Home Loan Bank borrowings - Note 10	27,000,000	9,000,000
Accrued interest payable	154,769	157,130
Accrued expenses and other liabilities	1,008,339	1,001,846
Total Liabilities	236,600,225	188,432,850
Commitments and contingencies - Notes 6, 10, 11, 12 and 13		
SHAREHOLDERS' EQUITY - Notes 14, 15 and 16		
Common stock, no par value; authorized: 10,000,000 shares Issued and outstanding: 3,422,969 shares (1)	28,162,572	28,162,572
Additional paid-in capital	381,890	321,560
Retained earnings	2,698,516	459,553
Accumulated other comprehensive loss, net of tax benefit of $31,827 and $22,612 at December 31, 2018 and 2017, respectively	(119,734)	(85,066)
Total Shareholders' Equity	31,123,244	28,858,619
Total Liabilities and Shareholders' Equity	$ 267,723,469	$ 217,291,469

(1) - Share information has been adjusted to give effect to a 1-for-5 reverse stock split of common shares completed effective September 10, 2018

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
Interest income	
Interest and fees on loans	$ 11,084,179
Interest on investment securities	217,189
Interest on interest-bearing deposits with financial institutions	223,426
Total interest income	11,524,794
Interest expense	
On deposits	1,548,273
On borrowed funds	279,772
Total interest expense	1,828,045
Net interest income	9,696,749
Provision for loan losses - Note 4	314,482
Net interest income after provision for loan losses	9,382,267
Non-interest income	
Service charges on deposit accounts	316,198
Gain on sales of SBA loans (guaranteed portion)	1,071,342
Rental income	116,252
Other	448,962
Total non-interest income	1,952,754
Non-interest expense	
Salaries and employee benefits	5,605,822
Occupancy and equipment	1,009,829
Data processing fees	262,206
Professional fees	184,050
FDIC assessment	74,400
OREO expense and writedowns	36,451
Directors and officers insurance	84,558
Director fees	99,570
Regulatory examination fees	57,883
B & O taxes	199,278
Other expense	876,579
Total non-interest expense	8,490,626
Income before federal income tax	2,844,395
Federal income tax - Note 8	605,432
Net Income	$ 2,238,963

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

		2018
Net Income	$	2,238,963
Other Comprehensive Loss		
Securities available-for-sale:		
Change in net unrealized gains/losses, net of tax benefit, during the year		(34,668)
Other comprehensive loss, net of tax benefit		(34,668)
Comprehensive Income	$	2,204,295

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Shares of Common Stock (1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	3,422,969	$ 28,162,572	$ 321,560	$ 459,553	$ (85,066)	$ 28,858,619
Stock-based compensation, stock options			60,330			60,330
Comprehensive income (loss) for the year ended December 31, 2018				2,238,963	(34,668)	2,204,295
Balance at December 31, 2018	3,422,969	$ 28,162,572	$ 381,890	$ 2,698,516	$ (119,734)	$ 31,123,244

(1) - Share information has been adjusted to give effect to a 1-for-5 reverse stock split of common shares completed effective September 10, 2018.

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 2,238,963
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	382,959
Provision for loan losses	314,482
Gain on sales of SBA loans	(1,071,342)
Net amortization on investment securities	39,332
Stock-based compensation	60,330
Deferred income tax expense	605,432
Increase in other assets	(419,268)
Increase in other liabilities	4,132
Total adjustments	(83,943)
Net Cash Provided by Operating Activities	2,155,020
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investment securities	(2,458,938)
Principal payments on investment securities	1,263,370
Purchases of FHLB stock	(3,577,200)
Redemptions of FHLB stock	2,820,739
Net increase in loans receivable	(42,691,375)
Cash proceeds from sales of other real estate owned	39,734
Purchases of property and equipment	(4,549,644)
Net Cash Used by Investing Activities	(49,153,314)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase in deposits	30,163,243
Net proceeds from FHLB borrowings	18,000,000
Net Cash Provided by Financing Activities	48,163,243
Net increase in cash and cash equivalents	1,164,949
Cash and cash equivalents at beginning of year	12,746,291
Cash and cash equivalents at end of year	$ 13,911,240

SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:	
Cash paid for interest	$ 1,830,406
Federal income taxes refunded	65,000

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

SAVIBANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and due from banks - Note 2	$ 4,480,455	$ 2,860,735
Interest-bearing deposits with financial institutions	9,227,321	9,885,556
Cash and cash equivalents	13,707,776	12,746,291
Investment securities - Note 3	11,090,909	9,978,557
Federal Home Loan Bank stock, at cost - Note 2	1,340,900	583,700
Pacific Coast Bankers' Bank stock, at cost - Note 2	190,000	190,000
Loans receivable, net of allowance for loan losses and deferred loan fees - Note 4	225,348,584	181,900,351
Other real estate owned	430,989	470,723
Premises and equipment, net - Note 6	11,707,672	7,541,987
Accrued interest receivable	653,023	530,699
Deferred tax asset - Note 8	1,700,581	2,334,350
SBA servicing asset	689,285	524,626
Other assets	589,135	530,632
Total Assets	$ 267,448,854	$ 217,331,916
LIABILITIES		
Deposits	$ 208,479,797	$ 178,273,874
Federal Home Loan Bank borrowings - Note 10	27,000,000	9,000,000
Dividend payable	-	500,000
Accrued interest payable	154,769	157,130
Accrued expenses and other liabilities	1,008,339	1,001,846
Total Liabilities	236,642,905	188,932,850
Commitments and contingencies - Notes 6, 10, 11, 12 and 13		
SHAREHOLDER'S EQUITY - Notes 14, 15 and 16		
Common stock, no par value; authorized: 20,000,000 shares Issued and outstanding: 17,113,064 shares	37,465,527	37,465,527
Additional paid-in capital	381,890	321,560
Retained deficit	(6,921,734)	(9,302,955)
Accumulated other comprehensive loss, net of tax benefit of $31,827 and $22,612 at December 31, 2018 and 2017, respectively	(119,734)	(85,066)
Total Shareholder's Equity	30,805,949	28,399,066
Total Liabilities and Shareholder's Equity	$ 267,448,854	$ 217,331,916

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

SAVIBANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest income		
Interest and fees on loans	$ 11,084,179	$ 9,083,490
Interest on investment securities	217,189	182,858
Interest on interest-bearing deposits with financial institutions	219,962	81,352
Total interest income	11,521,330	9,347,700
Interest expense		
On deposits	1,548,273	848,583
On borrowed funds	279,772	336,013
Total interest expense	1,828,045	1,184,596
Net interest income	9,693,285	8,163,104
Provision for loan losses - Note 4	314,482	23,000
Net interest income after provision for loan losses	9,378,803	8,140,104
Non-interest income		
Service charges on deposit accounts	316,198	246,743
Gain on sales of SBA loans (guaranteed portion)	1,071,342	930,926
Net gain on sales of other real estate owned	-	10,828
Rental income	116,252	125,457
Other	448,962	400,494
Total non-interest income	1,952,754	1,714,448
Non-interest expense		
Salaries and employee benefits	5,538,321	4,894,761
Occupancy and equipment	1,009,829	888,406
Data processing fees	262,206	241,970
Professional fees	117,365	140,379
FDIC assessment	74,400	69,125
OREO expense and writedowns	36,451	47,591
Directors and officers insurance	84,558	89,888
Director fees	99,570	125,320
Regulatory examination fees	57,883	49,474
B & O taxes	199,278	161,912
Other expense	827,228	800,991
Total non-interest expense	8,307,089	7,509,817
Income before federal income tax	3,024,468	2,344,735
Federal income tax - Note 8	643,247	2,256,003
Net Income	$ 2,381,221	$ 88,732

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

SAVIBANK
STATEMENTS OF COMPREHENSIVE INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	**2017**
Net Income	$ 2,381,221	$ 88,732
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Change in net unrealized gains/losses, net of tax (benefit), during the year	(34,668)	14,712
Other comprehensive income (loss), net of tax (benefit)	(34,668)	14,712
Comprehensive Income	$ 2,346,553	$ 103,444

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

SAVIBANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2017	11,695,061	$ 28,838,101	$ 265,623	$ (8,905,685)	$ (85,780)	$ 20,112,259
Stock-based compensation, stock options			55,937			55,937
Stock options exercised	14,708	17,839				17,839
Sales of common stock	5,403,295	8,609,587				8,609,587
Dividend declared				(500,000)		(500,000)
Reclassification for federal income tax rate change from 34% to 21%				13,998	(13,998)	-
Comprehensive income for the year ended December 31, 2017				88,732	14,712	103,444
Balance at December 31, 2017	17,113,064	37,465,527	321,560	(9,302,955)	(85,066)	28,399,066
Stock-based compensation, stock options			60,330			60,330
Comprehensive income (loss) for the year ended December 31, 2018				2,381,221	(34,668)	2,346,553
Balance at December 31, 2018	17,113,064	$ 37,465,527	$ 381,890	$ (6,921,734)	$ (119,734)	$ 30,805,949

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

SAVIBANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,381,221	$ 88,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	382,959	338,482
Provision for loan losses	314,482	23,000
Net loss on sales of investment securities	-	488
Gain on sales of SBA loans	(1,071,342)	(930,926)
Net gain on sales of other real estate owned	-	(10,828)
Net amortization on investment securities	39,332	40,070
Stock-based compensation	60,330	55,937
Deferred income tax expense	643,247	2,242,005
Increase in other assets	(345,485)	(377,773)
Increase in other liabilities	4,132	590,594
Total adjustments	27,655	1,971,049
Net Cash Provided by Operating Activities	2,408,876	2,059,781
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(2,458,938)	(3,416,041)
Principal payments on investment securities	1,263,370	1,235,327
Proceeds from sales of investment securities	-	1,136,750
Purchases of FHLB stock	(3,577,200)	(3,396,100)
Redemptions of FHLB stock	2,820,739	4,120,000
Net increase in loans receivable	(42,691,375)	(30,434,206)
Cash proceeds from sales of other real estate owned	39,734	1,002,790
Purchases of property and equipment	(4,549,644)	(1,962,792)
Net Cash Used by Investing Activities	(49,153,314)	(31,714,272)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	30,205,923	41,111,695
Net proceeds (repayments) from FHLB borrowings	18,000,000	(19,500,000)
Proceeds from exercise of incentive stock options	-	17,839
Dividends paid	(500,000)	-
Net proceeds from common stock issued	-	8,609,587
Net Cash Provided by Financing Activities	47,705,923	30,239,121
Net increase in cash and cash equivalents	961,485	584,630
Cash and cash equivalents at beginning of year	12,746,291	12,161,661
Cash and cash equivalents at end of year	$ 13,707,776	$ 12,746,291
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Cash paid for interest	$ 1,830,406	$ 1,083,851
Federal income taxes refunded	65,000	-
Federal income taxes paid	-	31,000
Bank financed sales of other real estate owned	-	48,000

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

Note 1 Description of Business

SaviBank is a commercial bank chartered in the State of Washington. The Bank began operations April 11, 2005 and has five branch locations in Burlington, Bellingham, Mt. Vernon, Oak Harbor, and Freeland, Washington. A loan production center was opened in Anacortes, Washington in May 2013. The Bank provides loan and deposit services to customers who are predominantly small and middle-market businesses and individuals in and around Skagit, Island and Whatcom counties. The Bank operates under a state bank charter and is subject to regulation by the State of Washington Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC).

On July 6, 2017, Savi Financial Corporation, Inc. (the Corporation) was formed in the State of Washington as a financial holding company. Effective December 31, 2017, the Corporation and SaviBank entered into a Share Exchange Agreement in order to effect the transfer of 100% of the issued and outstanding common stock of the Bank. Each issued and outstanding share of common stock of the Bank was automatically converted into one share of common stock of the Corporation. As a result of the Share Exchange, the Corporation became the sole shareholder of common stock of the Bank and the Bank will continue in existence as a wholly-owned subsidiary of the Corporation.

Effective September 10, 2018, the Corporation effected a 1-for-5 reverse stock split of issued and outstanding common shares. The reverse stock split decreased the number of issued shares from 17,113,064 to 3,422,969, including 356 additional shares issued to shareholders with fractional shares. Share and per share amounts included in the consolidated financial statements and notes reflect the effect of this split for all periods presented.

Note 2 Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and practices within the banking industry. Consolidated balances sheets are presented for 2018 and 2017; however, a consolidated income statement is presented only for 2018 because the transfer of shares occurred on the last day of the year and no Bank earnings were attributable to the Corporation in 2017. The consolidated balance sheets of the Corporation include its accounts and those of its one hundred percent (100%) owned subsidiary, SaviBank. All significant intercompany accounts and transactions have been eliminated upon consolidation.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

Note 2 Summary of Significant Accounting Policies, continued

Estimates, continued

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans 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. Such agencies may require the Corporation to recognize additional losses 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 may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

Cash and due from banks consist of vault cash, cash items in the process of collection, and non-interest-bearing deposits with financial institutions. For purposes of the statements of cash flows, the Corporation considers cash and cash equivalents to include cash, due from banks, interest-bearing deposits, and investments with an original maturity of three months or less and federal funds sold.

Restrictions on Cash and Due from Banks

SaviBank is required to maintain reserve funds in cash or on deposit with Pacific Coast Bankers' Bank. The required reserve at December 31, 2018 and 2017 was $622,000 and $404,000, respectively.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income, and when applicable, are reported as a reclassification adjustment, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other than temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other-than temporary impairment losses, management considers (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.

Note 2 Summary of Significant Accounting Policies, continued

Federal Home Loan Bank and Pacific Coast Bankers' Bank Stock

The Corporation's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at cost ($100 per share par value), which reasonably approximates its fair value. As a member of the FHLB system, the Corporation is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Corporation is required to purchase or redeem shares as the level of outstanding advances increase or decrease. This stock is classified as a restricted investment security, carried at cost and evaluated annually for impairment. No impairment loss was recorded in 2018 or 2017.

The Corporation owns stock in Pacific Coast Bankers' Bank (PCBB). The investment in PCBB stock is a restricted investment carried at cost, which reasonably approximates its fair value. As a holder of PCBB stock, the Corporation is allowed to borrow at a lower interest rate than a non-holder and to receive dividends.

Loans

Loans that management has the intent and ability to hold for the foreseeable future are stated at the principal amount outstanding, net of allowance for loan losses and deferred loan fees. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method. Interest on loans is calculated using the simple interest method based on the daily balance of principal amount outstanding and is credited to income when earned. Interest is accrued as earned unless management doubts the collectibility of interest or principal, at which time the loan is placed on nonaccrual status and accrued but unpaid interest is charged against income in that period. Any loan delinquent 90 days or more is placed on nonaccrual. Accrual of interest income is resumed when the borrower demonstrates the ability to make scheduled payments of both principal and interest.

Management considers loans impaired when it is probable the Bank will not be able to collect all amounts as scheduled under a loan agreement. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Changes in these values will be reflected in income and as adjustments to the allowance for possible loan losses.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received, or payment is considered certain.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed to be sufficient to absorb potential losses in the portfolio. The allowance for specific loan losses is provided on loans, which are considered impaired when full collectibility may not be assured. The allowance is established by a charge against operations in the period the loss is identified. General loan loss reserves are established to provide for inherent risks in the portfolio. The reserves are based on management's continuing evaluation of the pertinent factors underlying the credit quality of the loan portfolio, including changes in the size and

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

composition of the loan portfolio, actual loan loss experience, and current and anticipated economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Additionally, loans are subject to examinations by state and federal regulators, who, based upon their judgment, may require the Corporation to make additional provisions or adjustments to its allowance for loan losses. Past due status is determined based on contractual terms.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Reserve for Unfunded Commitments

The Corporation has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying balance sheets. At December 31, 2018 and 2017, the recorded liability was $80,531 and $71,529, respectively.

Premises and Equipment

Property, equipment and leasehold improvements are recorded at cost, net of accumulated depreciation and amortization. Gains and losses on dispositions are reflected in operations. Expenditures for improvements and major renewals are capitalized, and ordinary maintenance, repairs and small purchases are charged to operations as incurred.

Depreciation and Amortization

Property, equipment and leasehold improvements are depreciated or amortized over the estimated useful life of the related asset, which ranges from three to fifty years. The Corporation uses the straight-line method of recognizing depreciation and amortization expenses. Leasehold improvements are amortized over lease terms on a straight-line basis.

Note 2 Summary of Significant Accounting Policies, continued

Other Real Estate Owned

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate owned are accounted for according to authoritative guidance issued by the FASB.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to the net operating loss carryover and differences between the tax and financial reporting of the allowance for loan losses, accumulated depreciation, organization costs and conversion from accrual to cash basis.

The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Effective beginning in 2017, the Corporation and the Bank file consolidated federal income tax returns. The Corporation and the Bank maintain their records for both financial reporting and income tax reporting on the accrual basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the financial statements. No uncertain tax positions were identified. The December 31, 2015 through December 31, 2018 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties and interest assessed by taxing authorities during 2018 or 2017.

Advertising Costs

The Corporation expenses advertising costs as they are incurred. Total advertising expense was $161,259 and $166,603 for the years ended December 31, 2018 and 2017, respectively.

Note 2 Summary of Significant Accounting Policies, continued

Stock-Based Employee Compensation

The Corporation has a stock-based compensation plan described more fully in Note 16. The Corporation has adopted authoritative guidance issued by the FASB regarding stock compensation.

The statements of income include $60,330 and $55,937 of compensation expense related to stock-based compensation for options for the years ended December 31, 2018 and 2017, respectively.

Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded, or related fees are incurred or received.

Fair Values of Financial Instruments

The FASB has issued authoritative guidance which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The FASB authoritative guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

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

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate those assets' fair values.

Interest-bearing deposits with financial institutions: The carrying amounts of interest-bearing deposits at other financial institutions approximate fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

FHLB stock and PCBB stock: These are restricted investments carried at cost which approximates fair value.

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The fair value of impaired loans is estimated using discounted cash flow analysis or underlying collateral values, where applicable.

SBA Servicing Asset: The carrying amount of the servicing asset approximates its fair value.

Deposits: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits.

Long-Term Borrowings: The fair values of the Corporation's long-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Short-Term Borrowings: The carrying amount of short-term borrowings approximates their fair values.

Accrued Interest: The carrying amount of accrued interest approximates its fair value.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to current year presentations. Such reclassifications have had no effect upon previously reported net income.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2018 through May 7, 2019, the date the financial statements were available to be issued. Refer to Note 22 for subsequent events identified for disclosure.

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606*). This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a bank will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the bank expects to be entitled in exchange for those goods or services. In doing so, banks will need to use more judgement and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. As a public business entity, the Corporation was required to adopt this new standard during 2018. The implementation of this standard did not have a significant impact on the Corporation's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after December 15, 2017 for public business entities. The Corporation was required to implement this Standard during 2018. Refer to Notes 19 and 20 for additional information.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is evaluating the potential impact of the amendment on the Corporation's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure 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 use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation believes the amendments in this update will have an impact on the Corporation's financial statements and is working to evaluate the significance of that impact.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment provides guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017. This Standard was required to be implemented by the Corporation during 2018. Implementation of this standard did not have a significant impact on the Corporation's financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments of this update are applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Corporation is evaluating the potential impact to the financial statements regarding implementation of this amendment.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This amendment requires an entity to account for the effects of a modification unless all of the following are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) The classification of the modified award as an equity instrument or a liability instrument

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

is the same as the classification of the original award immediately before the original award is modified. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. This Standard was adopted by the Corporation during 2018. Implementation of this standard did not have a significant impact on the Corporation's financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This amendment helps organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the reduction in the federal income tax rate included in the Tax Cuts and Jobs Acts of 2017. The amendment is effective for all organizations for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Bank early adopted this standard in 2017 and reclassified $13,998 from Accumulated Other Comprehensive Loss to Retained Deficit.

Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2018 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Government agency	$ 1,510,379	$ -	$ (40,726)	$ 1,469,653
Municipal bonds	1,397,307	-	(38,265)	1,359,042
U.S. Government agency mortgage-backed securities	195,389	418	(2,992)	192,815
Collateralized mortgage obligations (CMOs)	483,041	1,874	-	484,915
SBA pools	7,406,650	3,205	(64,939)	7,344,916
Corporate bonds	249,705	-	(10,137)	239,568
Totals	$ 11,242,471	$ 5,497	$ (157,059)	$ 11,090,909

The balance sheet as of December 31, 2018 reflects the fair value of available-for-sale securities of $11,090,909. A net unrealized loss of $151,562 is included in the available-for-sale investment securities balance. The unrealized loss, net of tax benefit, is included in shareholder's equity.

Note 3 Investment Securities, continued

The amortized cost and fair values of investment securities at December 31, 2017 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Government agency	$ 1,513,190	$ -	$ (30,826)	$ 1,482,364
Municipal bonds	1,409,747	-	(35,094)	1,374,653
U.S. Government agency mortgage-backed securities	306,446	714	(2,293)	304,867
Collateralized mortgage obligations (CMOs)	495,887	2,288	-	498,175
SBA pools	6,360,965	10,113	(52,580)	6,318,498
Totals	$ 10,086,235	$ 13,115	$ (120,793)	$ 9,978,557

The balance sheet as of December 31, 2017 reflects the fair value of available-for-sale securities of $9,978,557. A net unrealized loss of $107,678 is included in the available-for-sale investment securities balance. The unrealized loss, net of tax benefit, is included in shareholder's equity.

The amortized cost and estimated fair value of debt securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities, collateralized mortgage obligations and SBA pools are shown separately, since they are not due at a single maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value
Amounts Maturing:		
After one year to five years	$ 1,643,575	$ 1,593,199
After five years to ten years	1,513,816	1,475,064
	3,157,391	3,068,263
U.S. Govt. agency mortgage-backed securities	195,389	192,815
Collateralized mortgage obligations	483,041	484,915
SBA pools	7,406,650	7,344,916
Totals	$ 11,242,471	$ 11,090,909

There were no sales of investment securities during 2018. Proceeds from sales of investment securities were $1,136,750 in 2017 with gross realized gains of $100 and gross realized losses of $588. There were proceeds from redemption of FHLB stock of $2,820,739 and $4,120,000 in 2018 and 2017, respectively.

Securities with carrying amounts of $39,196 and $65,454 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 3 Investment Securities, continued

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018:						
U.S. Government agency	$ -	$ -	$ 1,469,653	$ (40,726)	$ 1,469,653	$ (40,726)
Municipal bonds	-	-	1,359,043	(38,265)	1,359,043	(38,265)
U.S. Government agency mortgage-backed securities	-	-	126,731	(2,992)	126,731	(2,992)
SBA pools	1,703,260	(3,392)	4,334,716	(61,547)	6,037,976	(64,939)
Corporate bonds	239,568	(10,137)	-	-	239,568	(10,137)
Totals	$ 1,942,828	$ (13,529)	$ 7,290,143	$ (143,530)	$ 9,232,971	$ (157,059)
December 31, 2017:						
U.S. Government agency	$ -	$ -	$ 1,482,364	$ (30,826)	$ 1,482,364	$ (30,826)
Municipal bonds	264,015	(1,393)	1,110,638	(33,701)	1,374,653	(35,094)
U.S. Government agency mortgage-backed securities	93,352	(1,477)	97,984	(816)	191,336	(2,293)
SBA pools	2,988,826	(17,129)	1,740,070	(35,451)	4,728,896	(52,580)
Totals	$ 3,346,193	$ (19,999)	$ 4,431,056	$ (100,794)	$ 7,777,249	$ (120,793)

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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Certain investment securities shown above currently have fair values less than amortized cost and therefore contain unrealized losses. At December 31, 2018, there are 34 investment securities with an unrealized loss of 1.67% from their amortized cost. The Corporation has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. The Corporation anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4 Loans Receivable and Allowance for Loan Losses

An analysis of loan categories at December 31, 2018 and 2017 is as follows:

		2018	2017
Commercial and agricultural loans		$ 31,124,707	$ 23,053,497
Real estate (RE) loans:			
Construction, land and land development		27,300,911	18,618,339
Residential 1-4 family		44,710,500	42,812,049
Commercial RE		115,050,832	90,481,852
Consumer and other loans		9,720,843	9,010,662
		227,907,793	183,976,399
Less:	Deferred loan fees	(282,580)	(129,609)
	Allowance for loan losses	(2,276,629)	(1,946,439)
	Loans, net	$ 225,348,584	$ 181,900,351

Included in total loans above are $131,584 and $28,153 in overdrawn accounts at December 31, 2018 and 2017, respectively.

Transactions in the allowance for loan losses in 2018 are summarized as follows:

	Commercial and Agricultural	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2018 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 357,455	$ 123,188	$ 385,625	$ 669,845	$ 68,406	$ 341,920	$ 1,946,439
Provisions, charged (credited) to income	36,689	57,260	(62,172)	215,866	24,916	41,923	314,482
	394,144	180,448	323,453	885,711	93,322	383,843	2,260,921
Loans charged-off	(8,153)	-	-	(839)	(26,302)	-	(35,294)
Recoveries of loans previously charged-off	13,089	-	4,890	13,755	19,268	-	51,002
Net (charge-offs) recoveries	4,936	-	4,890	12,916	(7,034)	-	15,708
Balance, end of year	$ 399,080	$ 180,448	$ 328,343	$ 898,627	$ 86,288	$ 383,843	$ 2,276,629
Amounts allocated to: Individually evaluated for impairment	$ 129	$ 536	$ 97,963	$ 1,010	$ 5,323	$ -	$ 104,961
Amounts allocated to: Collectively evaluated for impairment	398,951	179,912	230,380	897,617	80,965	383,843	2,171,668
Balance, end of year	$ 399,080	$ 180,448	$ 328,343	$ 898,627	$ 86,288	$ 383,843	$ 2,276,629
Loans:							
Individually evaluated for impairment	$ 11,646	$ 279,306	$ 850,466	$ 148,061	$ 6,027		$ 1,295,506
Collectively evaluated for impairment	31,113,061	27,021,605	43,860,034	114,902,771	9,714,816		226,612,287
Ending balance total loans	$ 31,124,707	$ 27,300,911	$ 44,710,500	$ 115,050,832	$ 9,720,843		$ 227,907,793

Note 4 Loans Receivable and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2017 are summarized as follows:

	Commercial and Agricultural	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2017 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 290,174	$ 185,434	$ 216,868	$ 251,635	$ 18,350	$ 561,494	$ 1,523,955
Provisions, charged (credited) to income	(13,874)	(64,056)	163,217	101,213	56,074	(219,574)	23,000
	276,300	121,378	380,085	352,848	74,424	341,920	1,546,955
Loans charged-off	(50,000)	-	-	(75,000)	(11,968)	-	(136,968)
Recoveries of loans previously charged-off	131,155	1,810	5,540	391,997	5,950	-	536,452
Net (charge-offs) recoveries	81,155	1,810	5,540	316,997	(6,018)	-	399,484
Balance, end of year	$ 357,455	$ 123,188	$ 385,625	$ 669,845	$ 68,406	$ 341,920	$ 1,946,439
Amounts allocated to: Individually evaluated for impairment	$ 29,628	$ 589	$ 103,313	$ 999	$ -	$ -	$ 134,529
Amounts allocated to: Collectively evaluated for impairment	327,827	122,599	282,312	668,846	68,406	341,920	1,811,910
Balance, end of year	$ 357,455	$ 123,188	$ 385,625	$ 669,845	$ 68,406	$ 341,920	$ 1,946,439
Loans:							
Individually evaluated for impairment	$ 334,575	$ 313,762	$ 1,065,554	$ 130,839	$ 6,036		$ 1,850,766
Collectively evaluated for impairment	22,718,922	18,304,577	41,746,495	90,351,013	9,004,626		182,125,633
Ending balance total loans	$ 23,053,497	$ 18,618,339	$ 42,812,049	$ 90,481,852	$ 9,010,662		$ 183,976,399

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Loans Especially Mentioned" ("OLEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as OLEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Note 4 Loans and Allowance for Loan Losses, continued

Loans by credit quality risk rating at December 31, 2018 and 2017 are as follows:

	Pass	Other Loans Especially Mentioned	Sub-Standard	Doubtful	Total
December 31, 2018:					
Commercial and agricultural loans	$ 31,017,754	$ -	$ 106,953	$ -	$ 31,124,707
Real estate (RE) loans:					
Construction, land and land development	27,299,228	-	1,683	-	27,300,911
Residential 1-4 family	44,465,011	-	245,489	-	44,710,500
Commercial RE	114,479,246	-	571,586	-	115,050,832
Consumer and other loans	9,714,816	-	6,027	-	9,720,843
Subtotal	$ 226,976,055	$ -	$ 931,738	$ -	227,907,793
Less: Deferred loan fees					(282,580)
Total loans					$ 227,625,213
December 31, 2017:					
Commercial and agricultural loans	$ 22,698,634	$ -	$ 354,863	$ -	$ 23,053,497
Real estate (RE) loans:					
Construction, land and land development	18,591,175	-	27,164	-	18,618,339
Residential 1-4 family	42,524,852	36,256	250,941	-	42,812,049
Commercial RE	90,159,030	-	322,822	-	90,481,852
Consumer and other loans	9,004,626	-	6,036	-	9,010,662
Subtotal	$ 182,978,317	$ 36,256	$ 961,826	$ -	183,976,399
Less: Deferred loan fees					(129,609)
Total loans					$ 183,846,790

An analysis of nonaccrual loans by category at December 31, 2018 and 2017 is as follows:

	2018	2017
Commercial and agricultural loans	$ -	$ 44,934
Real estate (RE) loans:		
Construction, land and land development	1,683	27,164
Total nonaccrual loans	$ 1,683	$ 72,098

Note 4 Loans and Allowance for Loan Losses, continued

At December 31, 2018 and 2017, a summary of information pertaining to impaired loans is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2018:							
Commercial and agricultural loans	$ 23,434	$ -	$ 11,646	$ 11,646	$ 129	$ 173,111	$ 3,220
Real estate (RE) loans:							
Construction, land and land development	278,170	1,683	277,623	279,306	536	296,534	20,890
Residential 1-4 family	863,498	245,358	605,108	850,466	97,963	958,010	44,248
Commercial RE	173,809	9,920	138,141	148,061	1,010	139,450	13,787
Consumer	6,027	-	6,027	6,027	5,323	6,032	573
Total	$ 1,344,938	$ 256,961	$ 1,038,545	$ 1,295,506	$ 104,961	$ 1,573,137	$ 82,718
December 31, 2017:							
Commercial and agricultural loans	$ 384,575	$ -	$ 334,575	$ 334,575	$ 29,628	$ 220,499	$ 50,172
Real estate (RE) loans:							
Construction, land and land development	380,878	27,164	286,598	313,762	589	331,121	19,264
Residential 1-4 family	1,065,554	250,940	814,614	1,065,554	103,313	931,223	52,490
Commercial RE	130,839	-	130,839	130,839	999	649,708	10,517
Consumer	6,036	6,036	-	6,036	-	3,018	591
Total	$ 1,967,882	$ 284,140	$ 1,566,626	$ 1,850,766	$ 134,529	$ 2,135,569	$ 133,034

The Corporation has no commitments to loan additional funds to borrowers whose loans are impaired.

Troubled Debt Restructurings – The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

There were no loans restructured during 2018.

One consumer loan with a balance at time of restructure of $6,036 was restructured during 2017. The borrower was allowed to pay interest only for one year. The balance of this loan as of December 31, 2017 was $6,036. At December 31, 2018 and 2017, all restructured loans were in compliance with the loans' restructured terms.

Note 4 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2018:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More Past Due and Still Accruing
December 31, 2018:						
Commercial and agricultural loans	$ -	$ -	$ -	$ 31,124,707	$ 31,124,707	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	27,300,911	27,300,911	-
Residential 1-4 family	-	245,358	245,358	44,465,142	44,710,500	245,358
Commercial RE	-	-	-	115,050,832	115,050,832	-
Consumer and other loans	18,489	-	18,489	9,702,354	9,720,843	-
Subtotal	$ 18,489	$ 245,358	$ 263,847	$ 227,643,946	227,907,793	$ 245,358
Less: Deferred loan fees					(282,580)	
Total					$ 227,625,213	

The following table illustrates an age analysis of past due loans as of December 31, 2017:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More Past Due and Still Accruing
December 31, 2017:						
Commercial and agricultural loans	$ -	$ 44,934	$ 44,934	$ 23,008,563	$ 23,053,497	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	18,618,339	18,618,339	-
Residential 1-4 family	250,941	-	250,941	42,561,108	42,812,049	-
Commercial RE	-	-	-	90,481,852	90,481,852	-
Consumer and other loans	2,451	-	2,451	9,008,211	9,010,662	-
Subtotal	$ 253,392	$ 44,934	$ 298,326	$ 183,678,073	183,976,399	$ -
Less: Deferred loan fees					(129,609)	
Total					$ 183,846,790	

Note 4 Loans and Allowance for Loan Losses, continued

Loans totaling approximately $80,872,000 and $60,832,000 were pledged to secure borrowings at December 31, 2018 and 2017, respectively. Refer to Note 10 for additional information.

Note 5 SBA Servicing Asset

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $36,138,541 and $27,617,951 at December 31, 2018 and 2017, respectively. Servicing loans for others generally consists of collecting loan payments and disbursing payments to investors. The guaranteed portion of SBA loans are sold and the Corporation recognized a net gain on sales of SBA loans of $1,071,342 and $930,926 in 2018 and 2017, respectively.

The Corporation accounts for servicing rights in accordance with provisions of authoritative guidance issued by the FASB. This authoritative guidance requires the Corporation to recognize servicing assets and/or liabilities and to amortize over the period of estimated servicing income or loss.

The following summarizes the activity pertaining to SBA servicing rights measured using the amortization method, along with the aggregate activity in related valuation allowances, for the years ended December 31, 2018 and 2017:

	2018	2017
SBA servicing rights:		
Balance at beginning of year	$ 524,626	$ 339,528
Additions	226,066	213,123
Amortization	(61,407)	(28,025)
Balance at end of year	689,285	524,626
Valuation allowances:		
Balance at beginning of year	-	-
Additions	-	-
Reductions	-	-
Write-downs	-	-
Balance at end of year	-	-
SBA servicing assets, net	$ 689,285	$ 524,626

No allowance for impairment in the Corporation's SBA servicing rights was necessary during the years ended December 31, 2018 and 2017.

Note 6 Premises and Equipment

The components of premises and equipment at December 31 are as follows:

	2018	2017
Land	$ 2,844,143	$ 2,844,143
Buildings	5,013,563	4,995,014
Leasehold improvements	192,609	192,609
Equipment, furniture and fixtures	1,576,632	1,375,526
Construction in process	4,478,000	149,012
Total cost	14,104,947	9,556,304
Less accumulated depreciation	(2,397,275)	(2,014,317)
Total	$ 11,707,672	$ 7,541,987

Depreciation and amortization charged against operations for the years ended December 31, 2018 and 2017 was $382,959 and $338,482, respectively.

The Corporation leased its branch facilities in Bellingham under an operating lease with an initial lease term of five years. The lease included renewal options and provided for rate adjustments based on changes in various economic indicators. This lease was renewed in July 2014 for an additional three-year term which expired June 30, 2017. The lease was extended until November 2017 when the Corporation moved into its newly constructed facilities in Bellingham.

In May 2013, the Corporation opened a loan production center in Anacortes with a 12-month lease term at $1,050 per month. This lease has since been renewed for three additional two-year terms with current lease payment of $1,174 per month and a maturity of June 30, 2020.

A loan production office was opened in Freeland in February 2016 with a 12-month lease term at $1,266 per month. This lease has been extended until March 2021 at $2,324 base monthly rent. The Freeland branch opened at this location in April 2017.

Minimum gross rental commitments under existing leases having an original or remaining term of more than one year are as follows at December 31, 2018:

2019	$ 46,251
2020	39,209
2021	8,041
2022	-
2023	-
Total	$ 93,501

Rental expense was $56,476 and $84,356 for 2018 and 2017, respectively, which is included in occupancy and equipment expense.

Note 6 Premises and Equipment, continued

In August 2011, the Corporation acquired the land and building where the South Mount Vernon branch is located for $2,100,000. At December 31, 2018, there are three tenants in this building obligated under operating leases with all currently scheduled to expire in 2019. Future minimum rental income under these leases is as follows:

2019	$ 35,149

Rental income of $116,252 and $125,457 was received during 2018 and 2017, respectively, under these lease agreements and is recorded as non-interest income in the accompanying financial statements.

Note 7 Deposits

The composition of deposits at December 31 is as follows:

	2018	2017
Non-interest checking	$ 46,380,989	$ 36,735,942
Interest-bearing checking and money market	74,832,123	50,661,514
Savings deposits	22,776,345	18,623,494
Time deposits, less than $250,000	55,370,395	63,793,949
Time deposits, $250,000 or more	9,077,265	8,458,975
Total deposits	$ 208,437,117	$ 178,273,874

The scheduled maturities of time deposits at December 31, 2018 are as follows:

2019	$ 46,142,024
2020	9,525,574
2021	2,194,641
2022	5,414,246
2023	1,171,175
Total	$ 64,447,660

Included in deposits are institutional deposits obtained from institutions outside of the Corporation's primary market area of approximately $5,092,000 and $6,122,000 at December 31, 2018 and 2017, respectively. In addition, the Corporation held brokered money market deposits of $18,048,758 and $12,937 at December 31, 2018 and 2017, respectively.

Note 8 Federal Income Taxes

The principal factors causing a variation from the statutory tax rate are as follows:

	2018	2017
Income tax at statutory rate	$ 597,323	$ 797,210
Nondeductible expenses	2,158	4,254
Stock-based compensation	6,035	11,425
Other	(84)	(60,966)
Tax effect of reducing net deferred tax asset for reduction in tax rate	-	1,504,080
Federal income tax expense	$ 605,432	$ 2,256,003

The Tax Cuts and Jobs Act bill was signed into law on December 22, 2017. This bill included a provision to lower the corporate income tax rate effective January 1, 2018 to a flat 21%. As a result of this, the Corporation revalued the net deferred tax assets to reflect the change in tax rate. As noted in the table above, the Corporation recorded additional income tax expense totaling $1,504,080 in 2017 as a result of this revaluation of the net deferred tax assets as of December 31, 2017.

The tax effects of temporary differences that give rise to significant portions of consolidated deferred tax assets and liabilities are:

	2018	2017
Deferred tax assets:		
Net operating loss carryover	$ 1,629,439	$ 2,230,218
Organization expenditures	5,446	8,235
Basis difference on other real estate owned	10,388	10,388
Off-balance-sheet liability	16,912	15,021
Allowance for possible loan losses	106,877	40,835
Nonqualified stock options	20,845	16,103
Nonaccrual loan interest	3,829	6,913
Accrual to cash adjustment	-	43,917
Unrealized loss on available-for-sale securities	31,828	22,612
Other	7,229	2,121
Total deferred tax asset	1,832,793	2,396,363
Deferred tax liabilities:		
Accrual to cash adjustment	(17,231)	-
Premises and equipment	(63,583)	(48,697)
Other	(713)	(447)
Total deferred tax liability	(81,527)	(49,144)
Net deferred tax asset	$ 1,751,266	$ 2,347,219

Note 8 Federal Income Taxes, continued

Taxable income of approximately $2,895,000 and $2,468,000 was reported for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Bank has a net operating loss carryover of approximately $7,518,000 which may be carried forward a period of twenty years to offset future taxable income. As a result of the Tax Cuts and Jobs Act, the carryover period for any losses incurred after 2017 may be carried forward indefinitely but are limited to 80% each year.

Note 9 Related Party Transactions

During 2018 and 2017, the Corporation had transactions made in the ordinary course of business with related parties. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these transactions follows:

	Balance Beginning of Year	Additions	Amounts Collected	Balance End of Year
For the year ended: **December 31, 2018**	$ 6,526,692	$ 545,337	$ (838,331)	$ 6,233,698
For the year ended: **December 31, 2017**	$ 3,945,790	$ 3,590,585	$ (1,009,683)	$ 6,526,692

The Corporation also had unfunded commitments to related parties of approximately $1,019,000 and $1,003,000 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the Corporation held related party deposits of approximately $4,679,000 and $5,177,000, respectively.

Note 10 Federal Home Loan Bank Borrowings

The Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines (formerly FHLB of Seattle), which entitles it to certain benefits including a variety of borrowing options such as overnight advances or long-term advances at fixed or variable rates. Credit capacity is primarily determined by the value of assets collateralized at the FHLB, funds on deposit at the FHLB, and stock owned by the Bank. Credit is limited to 45% of the Bank's total assets at December 31, 2018.

Note 10 Federal Home Loan Bank Borrowings, continued

Advances on these lines at December 31 were as follows:

	2018	2017
Overnight advances (Fed Funds)	$ 22,000,000	$ 4,000,000
Long-term advances	5,000,000	5,000,000
Total	$ 27,000,000	$ 9,000,000

Interest rates on long-term advances were fixed at 2.28%. Long-term advances at December 31, 2018 will mature in October 2022. Collateral pledged to the FHLB as of December 31, 2018 and 2017 included loans with outstanding balances of approximately $80,872,000 and $60,832,000, respectively. The Bank has available borrowing capacity of approximately $30,790,000 based on pledged collateral at December 31, 2018.

Note 11 Lines of Credit

At December 31, 2018 and 2017, the Corporation has a $3,000,000 unsecured line of credit with Pacific Coast Bankers' Bank (PCBB). There were no borrowings on this line at December 31, 2018 or 2017.

The Corporation also has a line of credit with Federal Home Loan Bank as discussed in Note 10.

Note 12 Commitments and Contingent Liabilities

In the normal course of business, the Corporation has outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Commitments to extend credit and possible credit risk were approximately as follows:

	2018	2017
Commitments to extend credit	$ 37,292,000	$ 28,198,000
Standby letters of credit	14,000	150,000

Note 12 Commitments and Contingent Liabilities, continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties. The Corporation has not been required to perform on any financial guarantees nor incurred any losses on its commitments during 2018 or 2017.

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation.

The Corporation issues various representations and warranties associated with the sale of loans. The Corporation has not experienced any significant losses in the years ended December 31, 2018 and 2017 regarding these representations and warranties.

The Corporation participates in the Washington State Public Depository program which requires institutions to collateralize uninsured public deposits at 50% effective July 1, 2016 (previously 100%). At December 31, 2018 and 2017, the Corporation had pledged $39,196 and $65,454, respectively, to secure public deposits. Refer to Note 3 – Investment Securities.

Note 13 Concentrations of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, amounts placed or invested in bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. There were uninsured deposits in bank accounts of $623,853 and $407,454 at December 31, 2018 and 2017, respectively. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation grants agribusiness, commercial, consumer and real estate loans to customers within Skagit, Island and Whatcom Counties, Washington and the surrounding areas. Concentrations of credit by loan type are set forth in Note 4 – Loans Receivable and Allowance for Loan Losses.

Note 14 Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the 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 of: Total Risk-Based capital, Tier 1 capital and Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Leverage capital, which is Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale, deferred tax assets, and other intangible assets.

SaviBank has been notified by its regulator that, as of its most recent regulatory examination, the Bank is regarded as well capitalized under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank's Common Equity Tier 1, Tier 1, total capital and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank's categorization as well capitalized under the ratios listed on the next page.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multiyear transition period from January 1, 2015 through December 31, 2019.

Management believes that, as of December 31, 2018 and 2017, the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

Note 14 Regulatory Matters, continued

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 31,017	12.70%	$ 19,535	8.00%	$ 24,419	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 28,659	11.74%	$ 14,651	6.00%	$ 19,535	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 28,659	11.74%	$ 10,988	4.50%	$ 15,872	6.50%
Leverage Capital (to adjusted Total Average Assets)	$ 28,659	11.29%	$ 10,155	4.00%	$ 12,694	5.00%
As of December 31, 2017:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 27,866	14.67%	$ 15,197	8.00%	$ 18,996	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 25,848	13.61%	$ 11,397	6.00%	$ 15,197	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 25,848	13.61%	$ 8,548	4.50%	$ 12,347	6.50%
Leverage Capital (to adjusted Total Average Assets)	$ 25,848	12.16%	$ 8,505	4.00%	$ 10,631	5.00%

Note 15 Equity Transactions

The Board of Directors of the Corporation voted to proceed with a 1-for-5 reverse stock split of the Corporation's issued and outstanding common shares to be effective on September 10, 2018. Every five shares of the Corporation's pre-split common shares were automatically consolidated into one post-split share. Fractional shares were rounded up to the next whole number.

The Bank had a secondary stock offering during 2017. In 2017, 5,403,295 additional shares were sold at $1.60 per share for total proceeds of $8,645,272. Stock proceeds were offset by stock issuance costs of $35,685 for the year ended December 31, 2017.

Note 16 Stock-Based Compensation

Stock Option Plan

Effective July 25, 2013, the shareholders approved the adoption of the 2013 Long-Term Equity Incentive Plan (2013 Plan) which provides for the grant of stock awards to eligible employees, officers and non-employee directors. The 2013 Plan replaced the 2005 Stock Option Plan ("2005 Plan"), which provided for the grant of up to 50,000 shares. The 2013 Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock and Restricted Stock Unit Awards. The maximum number of shares of Common Stock which may be issued under all awards granted to participants under the 2013 Plan shall be 100,000 shares. No more than 25,000 shares of the 100,000 shares may be issued as Restricted Stock Grants or Restricted Stock Unit Awards. Shares of Common Stock issued under the Plan shall be authorized but unissued shares. At December 31, 2018 and 2017, there were 87 shares and 18,843 shares, respectively, available for future grants under the 2013 Plan.

In March 2018, there were 19,055 stock options granted at a price of $10.00 per share, including 5,000 nonqualified stock options granted to non-employee directors. In March 2017, there were 12,500 stock options granted, including 5,000 nonqualified stock options granted to non-employee directors. The options were granted at a price of $6.25 per share. All options vest over three to five years and have a term of 10 years.

The compensation cost that has been charged against income for this Plan was $60,330 and $55,937 for the years ended December 31, 2018 and 2017, respectively.

The Corporation uses the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant or modification. The Corporation amortizes the estimated fair value to stock compensation expense using the straight-line method over the vesting period of the option. Following is a description of the significant assumptions used in the option-pricing model:

***Expected Term*:** The expected term is the period of time that granted options are expected to be outstanding. The Corporation estimates the expected term based on historical patterns of option exercises, as well as potential future events that may increase liquidity. These factors are believed to reflect future exercise behavior.

Expected Volatility: Volatility is calculated based on trading of the Corporation's stock over the last three years, which is comparable to historical stock prices of similar banks going back over the estimated life of the option and averaging the volatilities of these banks.

Note 16 Stock-Based Compensation, continued

Stock Option Plan, continued

***Risk-Free Interest Rate*:** The Corporation bases the risk-free interest rate used in the Black-Scholes option valuation model on the market yield in effect at the time of the option grant provided from the Federal Reserve Board's Statistical Releases and Historical publications from the Treasury constant maturities rates for the equivalent remaining terms.

***Dividends*:** The Corporation does not have plans to pay cash dividends in the future. Therefore, the Corporation uses an expected dividend yield of zero in the Black-Scholes option valuation model.

The following assumptions were used to estimate the value of options granted for the years ended December 31, 2018 and 2017:

	2018	2017
Weighted-average expected term	7.00 years	7.00 years
Expected stock price volatility	54.56%	55.64%
Risk-free interest rate	2.67%	2.29%
Weighted-average risk-free interest rate	2.67%	2.29%
Expected dividends	0%	0%

Option activity under the Plan for the years ended December 31, 2018 and 2017 is summarized as follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2017	114,651	$ 6.95	7.66
Granted	12,500	6.25	-
Exercised	(2,942)	6.05	-
Forfeited or cancelled	(6,623)	7.00	-
Outstanding at December 31, 2017	117,586	$ 6.90	7.47
Vested or expected to vest at December 31, 2017	117,586	$ 6.90	7.47
Exercisable at December 31, 2017	66,442	$ 7.35	6.21
Outstanding at January 1, 2018	117,586	$ 6.90	7.47
Granted	19,055	10.00	-
Exercised	-	-	-
Forfeited or cancelled	(300)	6.22	-
Outstanding at December 31, 2018	136,341	$ 7.35	8.83
Vested or expected to vest at December 31, 2018	136,341	$ 7.35	8.83
Exercisable at December 31, 2018	88,838	$ 7.17	5.47

Note 16 Stock-Based Compensation, continued

Stock Option Plan, continued

There were 19,055 and 12,500 options granted during the years ended December 31, 2018 and 2017, respectively. There were no options exercised during 2018. Options for 14,708 shares were exercised during the year ended December 31, 2017 for total proceeds of $17,839.

A summary of the status of the Corporation's nonvested shares as of December 31, 2018, and changes during the year ended December 31, 2018, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	51,144	$ 2.55
Granted	19,055	5.75
Vested	(22,476)	2.40
Forfeited	(220)	2.58
Nonvested at December 31, 2018	47,503	$ 3.86

As of December 31, 2018, there was $136,582 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. Total unrecognized compensation costs will be adjusted for future changes in estimated forfeitures. The Corporation expects to recognize that cost over a period of approximately 4.17 years.

Stock Warrants

On June 21, 2018, a stock warrant was issued which entitles the warrant holder to purchase 334,004 shares of the Corporation's common stock at a price of $8.00 per share on or before March 31, 2022. This stock warrant remains outstanding as of December 31, 2018.

On October 2, 2014, a stock warrant was issued which entitles the warrant holder to purchase 310,000 shares of common stock of the Corporation at a price of $6.25 per share on or before October 2, 2019. This stock warrant remains outstanding as of December 31, 2018 and 2017.

During 2012, a total of 115,529 stock warrants were issued in conjunction with the March 2012 Stock Offering. One stock warrant to purchase one share of common stock was issued to each person who purchased two shares of common stock through this offering. The warrants entitle the warrant holder the right to purchase Corporation stock at a price of $10.00 per share on or before June 29, 2015. On March 12, 2015, the expiration date was extended for three years to June 29, 2018. A total of 115,096 remain outstanding as of December 31, 2018 and 2017.

In June 2005, the Board of Directors authorized the granting of stock warrants to the Corporation's organizers in exchange for providing $700,000 in seed capital which funded the organizational expenses of the Corporation. Each Director (eight) received 1,750 warrants that entitles the holder to purchase one share of common stock at a price of $50.00 per share on or before May 31, 2015. On March 12, 2015, the existing warrants were allowed to expire and were replaced with new warrants for the same amount of shares, (1,750 per Director) to expire on October 2, 2019 at a price of $6.25 per share for those Directors

Note 16 Stock-Based Compensation, continued

Stock Warrants, continued

(four) who are on the Board as of the date of this action and who provided seed capital which funded the organization expenses of the Corporation. At December 31, 2018 and 2017, there were 7,000 stock warrants outstanding for the Corporation's organizing Directors.

In December 2017, the Board approved extending all outstanding warrants at their current strike price to the expiration date of March 31, 2022.

Note 17 Employee Benefit Plan

The Corporation has a 401(k) profit sharing plan (the "Plan") covering substantially all of its employees. Employees are eligible to participate in the Plan if they are 18 years of age and have completed three months of service. Eligible employees may contribute through payroll deductions and are 100% vested at all times in their deferral contributions account. The Corporation is allowed to make annual matching contributions and/or employer "non-elective" contributions at its discretion. Participants are 100% vested in employer contributions after five years of service. During 2018 and 2017, employer matching contributions to the 401(k) Plan totaled $105,200 and $81,469, respectively.

Note 18 Compensated Absences

Employees of the Corporation are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. The Corporation's policy allows employees to accumulate a certain amount of paid time off (PTO). The amount of PTO recorded at December 31, 2018 and 2017 is $406,690 and $355,878, respectively, and is included in accrued expenses and other liabilities in the accompanying financial statements.

Note 19 Fair Values of Financial Instruments

As discussed in Note 2, current accounting guidance (ASU 2016-01) requires that fair value disclosures use exit pricing. Fair values disclosed in the table below are based on the methods used in prior years and do not comply with current guidance. In addition, new guidance requires that financial assets and liabilities be presented by measurement category which has not been provided. The estimated fair values of the Corporation's financial instruments as of December 31, 2018 and 2017 are as follows (in thousands):

	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 4,480	$ 4,480	$ 2,861	$ 2,861
Interest-bearing deposits with financial institutions	9,431	9,431	9,886	9,886
Investment securities	11,091	11,091	9,979	9,979
Federal Home Loan Bank stock	1,341	1,341	584	584
Pacific Coast Bankers' Bank stock	190	190	190	190
Loans, net	225,349	229,103	181,900	184,126
Interest receivable	653	653	531	531
SBA servicing asset	689,285	689,285	524,626	524,626
Financial liabilities:				
Deposits	208,437	208,933	178,274	178,450
FHLB borrowings	27,000	26,901	9,000	8,945
Interest payable	155	155	157	157

The carrying amounts in the preceding table are included in the balance sheet under the applicable captions.

Note 20 Fair Value Measurements

The Corporation previously had adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. However, the Corporation has not adopted the most recent guidance issued by the FASB (ASU 2016-01). As discussed in Note 2, the new guidance requires that exit price notion be used when measuring the fair value of financial instruments for disclosure purposes. The Corporation has determined that the cost to implement exit pricing is prohibitive and there is no material impact to the financial statements.

The authoritative guidance issued by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the

Note 20 Fair Value Measurements continued

principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- ***Level 1 Inputs:*** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- ***Level 2 Inputs:*** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- ***Level 3 Inputs:*** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness, among other things, as well as unobservable

Note 20 Fair Value Measurements, continued

parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate Owned: Other real estate owned represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value. At December 31, 2018 and 2017, there were no financial liabilities measured at fair value on a recurring basis.

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2018				
Available-for-Sale				
U.S. Government agency	$ -	$ 1,469,653	$ -	$ 1,469,653
Municipal bonds	-	1,359,042	-	1,359,042
U.S. Government agency mortgage-backed securities	-	192,815	-	192,815
Collateralized mortgage obligations	-	484,915	-	484,915
SBA pools	-	7,344,916	-	7,344,916
Corporate bonds	-	239,568	-	239,568
Totals	$ -	$ 11,090,909	$ -	$ 11,090,909
December 31, 2017				
Available-for-Sale				
U.S. Government agency	$ -	$ 1,482,364	$ -	$ 1,482,364
Municipal bonds	-	1,374,653	-	1,374,653
U.S. Government agency mortgage-backed securities	-	304,867	-	304,867
Collateralized mortgage obligations	-	498,175	-	498,175
SBA pools	-	6,318,498	-	6,318,498
Totals	$ -	$ 9,978,557	$ -	$ 9,978,557

Note 20 Fair Value Measurements, continued

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data (current appraisals) or Level 3 inputs based on customized discounting criteria.

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2018:				
Impaired loans	$ -	$ 245,358	$ 1,050,148	$ 1,295,506
Less specific valuation allowance for possible loan losses	-	-	(104,961)	(104,961)
Impaired loans, net	$ -	$ 245,358	$ 945,187	$ 1,190,545
December 31, 2017:				
Impaired loans	$ -	$ 295,875	$ 1,554,891	$ 1,850,766
Less specific valuation allowance for possible loan losses	-	(28,434)	(106,095)	(134,529)
Impaired loans, net	$ -	$ 267,441	$ 1,448,796	$ 1,716,237

A reconciliation of assets measured using Level 3 inputs for the years ended December 31, 2018 and 2017 is provided below:

	December 31, 2018	December 31, 2017
Opening Balance	$ 1,554,891	$ 2,420,369
(a) Transfers into Level 3	9,920	276,660
(b) Transfers out of Level 3	-	-
Settlements/payments	(514,663)	(1,142,138)
Ending Balance	$ 1,050,148	$ 1,554,891

(a) Transfer from Level 2 to Level 3; loans are no longer collateral dependent, and impairment is based on discounted cash flows.
(b) Transferred from Level 3 to Level 2 because loan is now considered to be collateral dependent. Impairment based on current appraisal.

Note 20 Fair Value Measurements, continued

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2018 and 2017, the Corporation had other real estate owned totaling $430,989 and $470,723, respectively. Fair values were determined using Level 2 measurements.

During 2018 and 2017, there were no foreclosures of real estate and no re-measurement of existing other real estate owned.

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

Note 22 Subsequent Events

In January 2019, the College Way branch was opened. Burlington branch personnel were relocated to the new Burlington North facility in March 2019. A branch in Sedro Woolley was also opened during March 2019. The main bank location in Burlington was sold in April 2019 and administrative staff moved to other locations. This summer the Oak Harbor branch will move into a new facility. A new branch is also scheduled to open in Anacortes this summer.

OTHER FINANCIAL INFORMATION

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018

	SAVI FINANCIAL	SAVI BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2018
ASSETS				
Cash and due from banks	$ 42,680	$ 4,480,455	$ (42,680)	$ 4,480,455
Interest-bearing deposits with banks	203,464	9,227,321	-	9,430,785
Investment securities	-	11,090,909	-	11,090,909
Federal Home Loan Bank stock	-	1,340,900	-	1,340,900
Pacific Coast Bankers' Bank stock	-	190,000	-	190,000
Loans receivable, net of allowance for loan losses and deferred loan fees	-	225,348,584	-	225,348,584
Other real estate owned	-	430,989	-	430,989
Bank premises and equipment	-	11,707,672	-	11,707,672
Accrued interest receivable	-	653,023	-	653,023
Deferred tax asset	50,685	1,700,581	-	1,751,266
Investment in subsidiary	30,805,949	-	(30,805,949)	-
SBA servicing asset	-	689,285		689,285
Other assets	20,466	589,135	-	609,601
Total Assets	$ 31,123,244	$ 267,448,854	$ (30,848,629)	$ 267,723,469
LIABILITIES				
Deposits	$ -	$ 208,479,797	$ (42,680)	$ 208,437,117
Federal Home Loan Bank borrowings	-	27,000,000	-	27,000,000
Accrued interest payable	-	154,769	-	154,769
Accrued expenses and other liabilities	-	1,008,339	-	1,008,339
Total Liabilities	-	236,642,905	(42,680)	236,600,225
Shareholders' Equity				
Common stock-voting, No par value 10,000,000 shares authorized; 3,422,969 issued and outstanding	28,162,572	37,465,527	(37,465,527)	28,162,572
Additional paid in capital	381,890	381,890	(381,890)	381,890
Retained earnings (deficit)	2,698,516	(6,921,734)	6,921,734	2,698,516
Accumulated other comprehensive loss	(119,734)	(119,734)	119,734	(119,734)
Total Shareholders' Equity	31,123,244	30,805,949	(30,805,949)	31,123,244
Total Liabilities and Shareholders' Equity	$ 31,123,244	$ 267,448,854	$ (30,848,629)	$ 267,723,469

Refer to Report of Independent Registered Public Accounting Firm.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	SAVI FINANCIAL	SAVI BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2018
Interest income				
Interest and fees on loans	$ -	$ 11,084,179	$ -	$ 11,084,179
Interest on investment securities	-	217,189	-	217,189
Interest on interest-bearing deposits				
with financial institutions	3,464	219,962	-	223,426
Total interest income	3,464	11,521,330	-	11,524,794
Interest expense				
On deposits	-	1,548,273	-	1,548,273
On borrowed funds	-	279,772	-	279,772
Total interest expense	-	1,828,045	-	1,828,045
Net interest income	3,464	9,693,285	-	9,696,749
			-	
Provision for loan losses - Note 4	-	314,482	-	314,482
Net interest income after provision				
for loan losses	3,464	9,378,803	-	9,382,267
Non-interest income				
Service charges on deposit accounts	-	316,198	-	316,198
Undistributed income of subsidiary	2,381,221	-	(2,381,221)	-
Gain on sales of SBA loans (guaranteed portion)	-	1,071,342	-	1,071,342
Rental income	-	116,252	-	116,252
Other	-	448,962	-	448,962
Total non-interest income	2,381,221	1,952,754	(2,381,221)	1,952,754
Non-interest expense				
Salaries and employee benefits	67,501	5,538,321	-	5,605,822
Occupancy and equipment	-	1,009,829	-	1,009,829
Data processing fees	-	262,206	-	262,206
Professional fees	66,685	117,365	-	184,050
FDIC assessment	-	74,400	-	74,400
OREO expense and writedowns	-	36,451	-	36,451
Directors and officers insurance	-	84,558	-	84,558
Director fees	-	99,570	-	99,570
Regulatory examination fees	-	57,883	-	57,883
B & O taxes	-	199,278	-	199,278
Other expense	49,351	827,228	-	876,579
Total non-interest expense	183,537	8,307,089	-	8,490,626
Income before federal income tax (benefit)	2,201,148	3,024,468	(2,381,221)	2,844,395
Federal income tax (benefit) - Note 8	(37,815)	643,247	-	605,432
Net Income	$ 2,238,963	$ 2,381,221	$ (2,381,221)	$ 2,238,963

Refer to Report of Independent Registered Public Accounting Firm.