SAVI FINANCIAL CORPORATION, INC.
AND SUBSIDIARY
BURLINGTON, WASHINGTON

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, 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 ("Bank") as of December 31, 2019 and 2018 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, 2019 and 2018, 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 53-54 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 4, 2020

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and due from banks - Note 2	$ 4,437,650	$ 4,480,455
Interest-bearing deposits with financial institutions	12,790,557	9,430,785
Federal funds sold	4,039,725	-
Cash and cash equivalents	21,267,932	13,911,240
Investment securities - Note 3	9,767,138	11,090,909
Federal Home Loan Bank stock, at cost - Note 2	1,521,000	1,340,900
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 and costs - Note 4	261,600,020	225,348,584
Premises and equipment, net - Note 6	14,407,633	11,707,672
Other real estate owned	484,526	430,989
Accrued interest receivable	747,009	653,023
Deferred tax asset - Note 8	1,342,461	1,759,233
SBA servicing asset - Note 5	657,733	689,285
Other assets	828,473	601,634
Total Assets	$ 312,813,925	$ 267,723,469
LIABILITIES		
Deposits - Note 7	$ 248,627,906	$ 208,437,117
Federal Home Loan Bank borrowings - Note 10	30,000,000	27,000,000
Accrued interest payable	245,538	154,769
Accrued expenses and other liabilities	1,154,087	1,008,339
Total Liabilities	280,027,531	236,600,225
Commitments and contingencies - Notes 6, 10, 11, 12 and 13		
SHAREHOLDERS' EQUITY - Notes 15 and 16		
Common stock, no par value; authorized: 10,000,000 shares Issued and outstanding: 3,433,472 and 3,422,684 at December 31, 2019 and 2018, respectively.	28,233,128	28,162,572
Additional paid-in capital	451,105	381,890
Retained earnings	4,111,573	2,698,516
Accumulated other comprehensive loss, net of tax benefit of $2,502 and $31,828 at December 31, 2019 and 2018, respectively	(9,412)	(119,734)
Total Shareholders' Equity	32,786,394	31,123,244
Total Liabilities and Shareholders' Equity	$ 312,813,925	$ 267,723,469

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Interest income		
Interest and fees on loans	$ 14,439,769	$ 11,084,179
Interest on investment securities	284,785	217,189
Interest on federal funds sold and interest-bearing deposits with financial institutions	371,374	223,426
Total interest income	15,095,928	11,524,794
Interest expense		
On deposits	2,641,168	1,548,273
On borrowed funds	555,627	279,772
Total interest expense	3,196,795	1,828,045
Net interest income	11,899,133	9,696,749
Provision for loan losses - Note 4	427,816	314,482
Net interest income after provision for loan losses	11,471,317	9,382,267
Non-interest income		
Service charges on deposit accounts	374,453	316,198
Gain on sales of SBA loans (guaranteed portion)	405,603	1,071,342
Gain on sales of other real estate owned	44,078	-
Net gain on sales of premises and equipment	3,545	-
Rental income	86,950	116,252
Other	370,740	448,962
Total non-interest income	1,285,369	1,952,754
Non-interest expense		
Salaries and employee benefits	6,805,099	5,605,822
Occupancy and equipment	1,483,864	1,009,829
Data processing fees	415,105	262,206
Professional fees	178,715	184,050
FDIC assessment	116,000	74,400
OREO expense and writedowns	86,415	36,451
Directors and officers insurance	79,201	84,558
Director fees	117,246	99,570
Regulatory examination fees	45,901	57,883
B & O taxes	251,634	199,278
Other expense	1,377,003	876,579
Total non-interest expense	10,956,183	8,490,626
Income before federal income tax	1,800,503	2,844,395
Federal income tax - Note 8	387,446	605,432
Net Income	$ 1,413,057	$ 2,238,963

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net Income	$ 1,413,057	$ 2,238,963
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Change in net unrealized gains/losses, net of tax benefit, during the year	110,322	(34,668)
Other comprehensive income (loss), net of tax (benefit)	110,322	(34,668)
Comprehensive Income	$ 1,523,379	$ 2,204,295

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Shares of Common Stock (1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	3,422,684	$ 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	3,422,684	28,162,572	381,890	2,698,516	(119,734)	31,123,244
Stock-based compensation, stock options			57,031			57,031
Restricted stock compensation	800		12,184			12,184
Exercise stock options	9,988	70,556				70,556
Comprehensive income for the year ended December 31, 2019				1,413,057	110,322	1,523,379
Balance at December 31, 2019	3,433,472	$ 28,233,128	$ 451,105	$ 4,111,573	$ (9,412)	$ 32,786,394

(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 STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,413,057	$ 2,238,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	564,039	382,959
Provision for loan losses	427,816	314,482
Net amortization on investment securities	39,138	39,332
Gain on sales of SBA loans	(405,603)	(1,071,342)
Net gain on sales of premises and equipment	(3,545)	-
Gain on sales of other real estate owned	(44,078)	-
Writedowns on other real estate owned	42,208	-
Stock-based compensation, stock options	57,031	60,330
Restricted stock compensation	12,184	-
Deferred income tax expense	387,446	605,432
Increase in other assets	(289,273)	(419,268)
Increase (decrease) in other liabilities	(54,173)	4,132
Total adjustments	733,190	(83,943)
Net Cash Provided by Operating Activities	2,146,247	2,155,020
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(1,000,000)	(2,458,938)
Principal payments on investment securities	1,674,281	1,263,370
Proceeds from maturities and calls of investment securities	750,000	-
Purchases of FHLB stock	(2,020,100)	(3,577,200)
Redemptions of FHLB stock	1,840,000	2,820,739
Net increase in loans receivable	(36,304,059)	(42,691,375)
Cash proceeds from sales of other real estate owned	181,938	39,734
Cash proceeds from sales of premises and equipment	1,905,282	-
Purchases of premises and equipment	(5,078,242)	(4,549,644)
Net Cash Used by Investing Activities	(38,050,900)	(49,153,314)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	40,190,789	30,163,243
Net proceeds from FHLB borrowings	3,000,000	18,000,000
Proceeds from exercise of stock options	70,556	-
Net Cash Provided by Financing Activities	43,261,345	48,163,243
Net increase in cash and cash equivalents	7,356,692	1,164,949
Cash and cash equivalents at beginning of year	13,911,240	12,746,291
Cash and cash equivalents at end of year	$ 21,267,932	$ 13,911,240

	2019	2018
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Cash paid for interest	$ 3,106,026	$ 1,830,406
Federal income taxes refunded	-	65,000
Other real estate acquired through loan foreclosures	30,410	-

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

SAVIBANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and due from banks - Note 2	$ 4,437,650	$ 4,480,455
Interest-bearing deposits with financial institutions	12,633,144	9,227,321
Federal funds sold	4,039,725	-
Cash and cash equivalents	21,110,519	13,707,776
Investment securities - Note 3	9,767,138	11,090,909
Federal Home Loan Bank stock, at cost - Note 2	1,521,000	1,340,900
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 and costs - Note 4	261,600,020	225,348,584
Premises and equipment, net - Note 6	14,407,633	11,707,672
Other real estate owned	484,526	430,989
Accrued interest receivable	747,009	653,023
Deferred tax asset	1,250,635	1,700,581
SBA servicing asset - Note 5	657,733	689,285
Other assets	821,806	589,135
Total Assets	$ 312,558,019	$ 267,448,854
LIABILITIES		
Deposits	$ 248,635,053	$ 208,479,797
Federal Home Loan Bank borrowings - Note 10	30,000,000	27,000,000
Accrued interest payable	245,538	154,769
Accrued expenses and other liabilities	1,154,087	1,008,339
Total Liabilities	280,034,678	236,642,905
Commitments and contingencies - Notes 6, 10, 11, 12 and 13		
SHAREHOLDER'S EQUITY - Notes 14 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	451,105	381,890
Retained deficit	(5,383,879)	(6,921,734)
Accumulated other comprehensive loss, net of tax benefit of $2,502 and $31,828 at December 31, 2019 and 2018, respectively	(9,412)	(119,734)
Total Shareholder's Equity	32,523,341	30,805,949
Total Liabilities and Shareholder's Equity	$ 312,558,019	$ 267,448,854

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

SAVIBANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Interest income		
Interest and fees on loans	$ 14,439,769	$ 11,084,179
Interest on investment securities	284,785	217,189
Interest on federal funds sold and interest-bearing deposits with financial institutions	367,424	219,962
Total interest income	15,091,978	11,521,330
Interest expense		
On deposits	2,641,168	1,548,273
On borrowed funds	555,627	279,772
Total interest expense	3,196,795	1,828,045
Net interest income	11,895,183	9,693,285
Provision for loan losses - Note 4	427,816	314,482
Net interest income after provision for loan losses	11,467,367	9,378,803
Non-interest income		
Service charges on deposit accounts	374,453	316,198
Gain on sales of SBA loans (guaranteed portion)	405,603	1,071,342
Gain on sales of other real estate owned	44,078	-
Net gain on sales of premises and equipment	3,545	-
Rental income	86,950	116,252
Other	370,740	448,962
Total non-interest income	1,285,369	1,952,754
Non-interest expense		
Salaries and employee benefits	6,727,895	5,538,321
Occupancy and equipment	1,483,864	1,009,829
Data processing fees	415,105	262,206
Professional fees	136,101	117,365
FDIC assessment	116,000	74,400
OREO expense and writedowns	86,415	36,451
Directors and officers insurance	79,201	84,558
Director fees	117,246	99,570
Regulatory examination fees	45,901	57,883
B & O taxes	251,634	199,278
Other expense	1,334,899	827,228
Total non-interest expense	10,794,261	8,307,089
Income before federal income tax	1,958,475	3,024,468
Federal income tax	420,620	643,247
Net Income	$ 1,537,855	$ 2,381,221

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

SAVIBANK
STATEMENTS OF COMPREHENSIVE INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net Income	$ 1,537,855	$ 2,381,221
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Change in net unrealized gains/losses, net of tax (benefit), during the year	110,322	(34,668)
Other comprehensive income (loss), net of tax (benefit)	110,322	(34,668)
Comprehensive Income	$ 1,648,177	$ 2,346,553

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, 2019 AND 2018

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	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
Stock-based compensation, stock options			57,031			57,031
Restricted stock compensation			12,184			12,184
Comprehensive income for the year ended December 31, 2019				1,537,855	110,322	1,648,177
Balance at December 31, 2019	17,113,064	$ 37,465,527	$ 451,105	$ (5,383,879)	$ (9,412)	$ 32,523,341

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

SAVIBANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,537,855	$ 2,381,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	564,039	382,959
Provision for loan losses	427,816	314,482
Net amortization on investment securities	39,138	39,332
Gain on sales of SBA loans	(405,603)	(1,071,342)
Net gain on sales of premises and equipment	(3,545)	-
Gain on sales of other real estate owned	(44,078)	-
Writedowns on other real estate owned	42,208	-
Stock-based compensation, stock options	57,031	60,330
Restricted stock compensation	12,184	-
Deferred income tax expense	420,620	643,247
Increase in other assets	(295,105)	(345,485)
Increase (decrease) in other liabilities	(54,173)	4,132
Total adjustments	760,532	27,655
Net Cash Provided by Operating Activities	2,298,387	2,408,876
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(1,000,000)	(2,458,938)
Principal payments on investment securities	1,674,281	1,263,370
Proceeds from maturities and calls of investment securities	750,000	-
Purchases of FHLB stock	(2,020,100)	(3,577,200)
Redemptions of FHLB stock	1,840,000	2,820,739
Net increase in loans receivable	(36,304,059)	(42,691,375)
Cash proceeds from sales of other real estate owned	181,938	39,734
Cash proceeds from sales of premises and equipment	1,905,282	-
Purchases of premises and equipment	(5,078,242)	(4,549,644)
Net Cash Used by Investing Activities	(38,050,900)	(49,153,314)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	40,155,256	30,205,923
Net proceeds from FHLB borrowings	3,000,000	18,000,000
Dividends paid	-	(500,000)
Net Cash Provided by Financing Activities	43,155,256	47,705,923
Net increase in cash and cash equivalents	7,402,743	961,485
Cash and cash equivalents at beginning of year	13,707,776	12,746,291
Cash and cash equivalents at end of year	$ 21,110,519	$ 13,707,776
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Cash paid for interest	$ 3,106,026	$ 1,830,406
Federal income taxes refunded	-	65,000
Other real estate acquired through loan foreclosures	30,410	-

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 nine branch locations in Anacortes, Burlington, Bellingham, Concrete, Mt. Vernon, Oak Harbor, Sedro-Woolley and Freeland, Washington. A loan production center was opened in Anacortes, Washington in May 2013. During 2019, this loan production center was converted into a branch. 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 the 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 3,422,684, 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

<u>Financial Statement Presentation</u>

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. 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.

<u>Estimates</u>

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.

Comprehensive Income (Loss)

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income (loss) and its components. These standards require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component in shareholders' equity. These items, along with net income, are components of comprehensive income (loss). The Corporation reports comprehensive income (loss) in the statement of comprehensive income (loss).

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, 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 the Pacific Coast Bankers' Bank. The required reserve at December 31, 2019 and 2018 was $481,000 and $622,000, 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.

Note 2 Summary of Significant Accounting Policies, continued

Investment Securities, continued

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 (loss). 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 (loss). 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.

Federal Home Loan Bank and Pacific Coast Bankers' Bank Stock

At December 31, 2019 and 2018, the Corporation held stock in the Federal Home Loan Bank (FHLB) totaling $1,521,000 and $1,340,900, respectively. 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 2019 or 2018.

The Corporation owns stock in Pacific Coast Bankers' Bank (PCBB). The carrying amount of the PCBB stock was $190,000 at December 31, 2019 and 2018. 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 and costs. 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.

Note 2 Summary of Significant Accounting Policies, continued

Loans, continued

Management considers a loan impaired when it is probable that 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 collectability 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 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.

Note 2 Summary of Significant Accounting Policies, continued

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, 2019 and 2018, the recorded liability was $112,143 and $80,531, 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 50 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.

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.

Note 2 Summary of Significant Accounting Policies, continued

Income Taxes, continued

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.

The Corporation and the Bank file consolidated federal income tax returns. The Corporation and the Bank maintain their records for financial reporting on the accrual basis of accounting and for income tax reporting on the cash 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, 2016 through December 31, 2019 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 2019 or 2018.

Advertising Costs

The Corporation expenses advertising costs as they are incurred. Total advertising expense was $238,315 and $151,259 for the years ended December 31, 2019 and 2018, respectively.

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 $57,031 and $60,330 of compensation expense related to stock-based compensation for stock options for the years ended December 31, 2019 and 2018, respectively. The statements of income include $12,184 of compensation expense related to stock-based compensation for restricted stock for the year ended December 31, 2019. There was no stock-based compensation for restricted stock for the year ended December 31, 2018.

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.

Note 2 Summary of Significant Accounting Policies, continued

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 cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' 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 their fair value.

Loans: In accordance with ASU No. 2016-01, exit level pricing was utilized to determine the fair values for loans.

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 time deposits 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.

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

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 2018 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, 2019 through May 4, 2020, the date the financial statements were available to be issued and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or would require additional disclosure.

Accounting Standards Adopted in 2019 and 2018

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which replaces a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Corporation's revenue is composed of net interest income and non-interest income. The scope of the guidance explicitly excludes net interest income, as well as many other revenues for financial assets and liabilities including loans, leases, securities and derivatives. Accordingly, the majority of the Corporation's revenues were not affected. As a public business entity, the Corporation was required to adopt this 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 (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The guidance also changes certain disclosure requirements and other aspects of current accounting principles. As a public business entity, the Corporation was required to adopt this standard during 2018. Refer to Notes 19 and 20 for additional information.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2019 and 2018, continued

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 the following which may affect the Corporation: (1) debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities and (2) proceeds from the settlement of claims, including proceeds from the settlement of corporate-owned life insurance policies, should be classified as cash flows from investing activities. Cash payments for premiums on corporate-owned life insurance may be classified as cash flows for investing or operating activities. As a public business entity, the Corporation was required to adopt this standard during 2018. Implementation of this standard did not have a significant impact on the Corporation's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which was intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard requires organizations to recognize on the balance sheet 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 requires qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. As a public business entity, the Corporation was required to adopt this standard during 2019. Implementation of this standard did not have a significant impact on the Corporation's financial statements. Refer to Note 6 for additional information.

In March 2017, the FASB issued ASU No. 2017-08, *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. 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. As a public business entity, the Corporation was required to adopt this standard during 2019. Implementation of this standard did not have a significant impact on the Corporation's financial statements.

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 standard 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 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.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Pending Adoption

The FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* The ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The standard is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Corporation is evaluating the impact of adoption of this ASU on its financial statements, but does not anticipate any material impact at this time.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which is 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 determine 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.

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. For non-SEC filing entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, 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.

Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2019 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Government agency	$ 757,802	$ 3,774	$ (569)	$ 761,007
Municipal bonds	1,384,624	1,136	(5,675)	1,380,085
U.S. Government agency mortgage-backed securities	147,830	529	(1,159)	147,200
Collateralized mortgage obligations (CMOs)	478,281	278	-	478,559
SBA pools	6,760,770	20,893	(34,900)	6,746,763
Corporate bonds	249,745	3,779	-	253,524
Totals	$ 9,779,052	$ 30,389	$ (42,303)	$ 9,767,138

The balance sheet as of December 31, 2019 reflects the fair value of available-for-sale securities of $9,767,138. A net unrealized loss of $11,914 is included in the available-for-sale investment securities balance. The unrealized loss, net of tax benefit, is included in shareholders' equity.

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 shareholders' equity.

Note 3 Investment Securities, continued

The amortized cost and estimated fair value of debt securities at December 31, 2019, 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 in:		
One year or less	$ 404,868	$ 405,330
After one year to five years	1,484,375	1,479,651
After five years to ten years	502,928	509,635
	2,392,171	2,394,616
U.S. Government agency mortgage-backed securities	147,830	147,200
Collateralized mortgage obligations	478,281	478,559
SBA pools	6,760,770	6,746,763
Totals	$ 9,779,052	$ 9,767,138

There were no sales of investment securities during 2019 and 2018. There were proceeds from redemptions of FHLB stock of $1,840,000 and $2,820,739 in 2019 and 2018, respectively.

Securities with carrying amounts of $29,105 and $39,196 at December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019:						
U.S. Government agency	$ -	$ -	$ 250,900	$ (569)	$ 250,900	$ (569)
Municipal bonds	-	-	1,124,005	(5,675)	1,124,005	(5,675)
U.S. Government agency mortgage-backed securities	-	-	99,364	(1,159)	99,364	(1,159)
SBA pools	953,083	(5,333)	2,710,958	(29,567)	3,664,041	(34,900)
Totals	$ 953,083	$ (5,333)	$ 4,185,227	$ (36,970)	$ 5,138,310	$ (42,303)
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)

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, 2019, there are 27 investment securities with an unrealized loss of less than 1% 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, 2019 and 2018 is as follows:

		2019	2018
Commercial and agricultural loans		$ 37,058,040	$ 31,124,707
Real estate (RE) loans:			
Construction, land and land development		26,063,480	27,300,911
Residential 1-4 family		45,867,860	44,710,500
Commercial RE		133,721,625	115,050,832
Consumer and other loans		21,492,344	9,720,843
		264,203,349	227,907,793
Adjust:	Deferred loan costs (fees)	39,103	(282,580)
	Allowance for loan losses	(2,642,432)	(2,276,629)
	Loans, net	$261,600,020	$225,348,584

Included in total loans above are $9,961 and $131,584 in overdrawn accounts at December 31, 2019 and 2018, respectively.

Note 4 Loans Receivable and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2019 are summarized as follows:

	Commercial and Agricultural	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2019 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 399,080	$ 180,448	$ 328,343	$ 898,627	$ 86,288	$ 383,843	$ 2,276,629
Provisions, charged (credited) to income	12,314	22,032	39,744	344,372	119,518	(110,164)	427,816
	411,394	202,480	368,087	1,242,999	205,806	273,679	2,704,445
Loans charged-off	(43,450)	-	-	(72,970)	(6,029)	-	(122,449)
Recoveries of loans previously charged-off	41,601	-	5,320	12,915	600	-	60,436
Net (charge-offs) recoveries	(1,849)	-	5,320	(60,055)	(5,429)	-	(62,013)
Balance, end of year	$ 409,545	$ 202,480	$ 373,407	$ 1,182,944	$ 200,377	$ 273,679	$ 2,642,432
Amounts allocated to: Individually evaluated for impairment	$ 85,806	$ 3,660	$ 66,694	$ -	$ -	$ -	$ 156,160
Amounts allocated to: Collectively evaluated for impairment	323,739	198,820	306,713	1,182,944	200,377	273,679	2,486,272
Balance, end of year	$ 409,545	$ 202,480	$ 373,407	$ 1,182,944	$ 200,377	$ 273,679	$ 2,642,432
Loans:							
Individually evaluated for impairment	$ 118,002	$ 317,124	$ 587,819	$ 186,333	$ 2,772		$ 1,212,050
Collectively evaluated for impairment	36,940,038	25,746,356	45,280,041	133,535,292	21,489,572		262,991,299
Ending balance total loans	$ 37,058,040	$ 26,063,480	$ 45,867,860	$ 133,721,625	$ 21,492,344		$ 264,203,349

Note 4 Loans Receivable and Allowance for Loan Losses, continued

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

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.

Loans by credit quality risk rating at December 31, 2019 are as follows:

	Pass	Other Loans Especially Mentioned	Sub-Standard	Doubtful	Total
December 31, 2019:					
Commercial and agricultural loans	$ 36,849,111	$ -	$ 208,929	$ -	$ 37,058,040
Real estate (RE) loans:					
Construction, land and land development	26,063,480	-	-	-	26,063,480
Residential 1-4 family	45,867,860	-	-	-	45,867,860
Commercial RE	132,252,094	-	1,469,531	-	133,721,625
Consumer and other loans	21,492,344	-	-	-	21,492,344
Subtotal	$ 262,524,889	$ -	$ 1,678,460	$ -	264,203,349
Adjust: Deferred loan costs (fees)					39,103
Total loans					$ 264,242,452

Note 4 Loans and Allowance for Loan Losses, continued

Loans by credit quality risk rating at December 31, 2018 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
Adjust: Deferred loan fees					(282,580)
Total loans					$ 227,625,213

An analysis of nonaccrual loans by category at December 31, 2019 and 2018 is as follows:

	2019	2018
Real estate (RE) loans:		
Construction, land and land development	$ -	1,683
Commercial RE	186,333	-
Total nonaccrual loans	$ 186,333	$ 1,683

Note 4 Loans and Allowance for Loan Losses, continued

At December 31, 2019 and 2018, 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, 2019:							
Commercial and agricultural loans	$ 118,002	$ -	$ 118,002	$ 118,002	$ 85,806	$ 64,824	$ -
Real estate (RE) loans:							
Construction, land and land development	365,790	48,116	269,008	317,124	3,660	298,215	17,263
Residential 1-4 family	587,819	-	587,819	587,819	66,694	719,142	30,301
Commercial RE	258,410	186,333	-	186,333	-	167,197	-
Consumer and other loans	2,772	2,772	-	2,772	-	4,399	-
Total	$ 1,332,793	$ 237,221	$ 974,829	$ 1,212,050	$ 156,160	$ 1,253,777	$ 47,564
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 and other loans	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

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 was one consumer loan restructured during 2019 which had a balance of $2,772 as of the restructuring date and as of December 31, 2019. As of December 31, 2019, this loan was paying in accordance with the restructured terms. As of December 31, 2019, there were construction, land and land development loans totaling $317,124 and residential 1-4 family loans totaling $587,819 which were restructured prior to 2019. As of December 31, 2019, these loans were paying in accordance to the restructured terms.

Note 4 Loans and Allowance for Loan Losses, continued

There were no loan restructurings during 2018. As of December 31, 2018, there were commercial loans totaling $11,646, construction, land and land development loans totaling $279,306, residential 1-4 family loans totaling $604,977, commercial real estate loans totaling $138,141 and consumer loans totaling $6,027 which were restructured prior to 2018. As of December 31, 2018, there was one construction, land and land development loan totaling $1,683 which was on nonaccrual. As of December 31, 2018, all other restructured loans were paying in accordance to the restructured terms.

The following table illustrates an age analysis of past due loans as of December 31, 2019:

	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, 2019:						
Commercial and agricultural loans	$ -	$ -	$ -	$ 37,058,040	$ 37,058,040	$ -
Real estate (RE) loans:						
Construction, land and land development	654,495	-	654,495	25,408,985	26,063,480	-
Residential 1-4 family	-	-	-	45,867,860	45,867,860	-
Commercial RE	-	186,333	186,333	133,535,292	133,721,625	-
Consumer and other loans	45,066	-	45,066	21,447,278	21,492,344	-
Subtotal	$ 699,561	$ 186,333	$ 885,894	$ 263,317,455	264,203,349	$ -
Adjust:Deferred loan costs (fees)					39,103	
Total					$ 264,242,452	

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
Adjust:Deferred loan fees					(282,580)	
Total					$ 227,625,213	

Loans totaling approximately $89,390,000 and $80,872,000 were pledged to secure borrowings at December 31, 2019 and 2018, 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 $33,616,362 and $36,138,541 at December 31, 2019 and 2018, 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 $405,603 and $1,071,342 in 2019 and 2018, 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.

Note 5 SBA Servicing Asset, continued

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, 2019 and 2018:

	2019	2018
SBA servicing rights:		
Balance at beginning of year	$ 689,285	$ 524,626
Additions	78,692	226,066
Amortization	(110,244)	(61,407)
Balance at end of year	657,733	689,285
Valuation allowances:		
Balance at beginning of year	-	-
Additions	-	-
Reductions	-	-
Writedowns	-	-
Balance at end of year	-	-
SBA servicing assets, net	$ 657,733	$ 689,285

No allowance for impairment in the Corporation's SBA servicing rights was necessary during the years ended December 31, 2019 and 2018.

Note 6 Premises and Equipment

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

	2019	2018
Land	$ 3,695,746	$ 2,844,143
Buildings	7,886,714	5,013,563
Leasehold improvements	539,479	192,609
Equipment, furniture and fixtures	2,802,159	1,576,632
Construction in process	1,121,793	4,478,000
Lease right-of-use assets	290,690	-
Total cost	16,336,581	14,104,947
Less accumulated depreciation	(1,928,948)	(2,397,275)
Total	$ 14,407,633	$ 11,707,672

Depreciation and amortization charged against operations for the years ended December 31, 2019 and 2018 was $564,039 and $382,959, respectively.

Note 6 Premises and Equipment, continued

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. In May 2019, the Corporation entered into a new lease agreement which terminated the previous lease agreement when they opened a branch location in Anacortes. The new agreement is for a 36-month lease term, a maturity date of June 30, 2022 and provides for monthly lease payments of $8,000. The new agreement has three additional one year renewal options.

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 $2,394 base monthly rent. The Freeland branch opened at this location in April 2017.

The Corporation also leases various equipment under operating leases. The Corporation adopted ASU No. 2016-02 which required the recognition of certain operating leases on the balance sheet as lease right-of-use assets (reported as a component of premises and equipment) and related lease liabilities (report as a component of accrued expenses and other liabilities). Refer to Note 2 for additional information.

The weighted-average discount rate was 2.00%. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lease liability as of December 31, 2019:

2020	$ 162,423
2021	140,882
2022	72,806
2023	10,010
2024	5,445
Thereafter	4,065
Total undiscounted operating lease liability	395,631
Imputed interest	(104,941)
Total operating lease liability included in the balance sheet	$ 290,690

Rental expense was $214,979 and $106,773 for 2019 and 2018, respectively, which is included in occupancy and equipment expense.

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 were three tenants in this building obligated under operating leases with all scheduled to expire in 2019. At December 31, 2019, there were three tenants remaining which were operating under month-to-month leases. During 2019, the Corporation acquired a building in Anacortes. At December 31, 2019, there was one tenant in this building operating under a month-to-month lease agreement.

Rental income of $86,950 and $116,252 was received during 2019 and 2018, 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:

	2019	2018
Non-interest checking	$ 52,447,979	$ 46,380,989
Interest-bearing checking and money market	83,320,509	74,832,123
Savings deposits	22,335,745	22,776,345
Time deposits, less than $250,000	85,245,671	55,370,395
Time deposits, $250,000 or more	5,278,002	9,077,265
Total deposits	$ 248,627,906	$ 208,437,117

The scheduled maturities of time deposits at December 31, 2019 are as follows:

2020	$ 55,249,492
2021	25,112,008
2022	6,545,708
2023	892,591
2024	2,723,874
Total	$ 90,523,673

Included in deposits are institutional deposits obtained from institutions outside of the Corporation's primary market area of $5,092,000 at December 31, 2019 and 2018. In addition, the Corporation held brokered money market deposits of $15,075,076 and $18,048,758 at December 31, 2019 and 2018, respectively.

Note 8 Federal Income Taxes

The principal factors causing a variation from the statutory tax rate of 21% are as follows:

	2019	2018
Income tax at statutory rate	$ 378,106	$ 597,323
Tax-exempt interest income	(1,028)	-
Nondeductible expenses	3,834	2,158
Stock-based compensation	5,685	6,035
Other	849	(84)
Federal income tax expense	$ 387,446	$ 605,432

Note 8 Federal Income Taxes, continued

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

	2019	2018
Deferred tax assets:		
Net operating loss carryover	$ 1,509,074	$ 1,637,406
Organization expenditures	2,657	5,446
Basis difference on other real estate owned	19,252	10,388
Off-balance-sheet liability	23,550	16,912
Allowance for possible loan losses	196,718	106,877
Nonqualified stock options	27,137	20,845
Nonaccrual loan interest	-	3,829
Restricted stock	753	-
Unrealized loss on available-for-sale securities	2,502	31,828
Other	9,642	7,229
Total deferred tax asset	1,791,285	1,840,760
Deferred tax liabilities:		
Accrual to cash adjustment	(38,496)	(17,231)
Depreciation	(409,320)	(63,583)
Other	(1,008)	(713)
Total deferred tax liability	(448,824)	(81,527)
Net deferred tax asset	$ 1,342,461	$ 1,759,233

After adjusting book income for permanent and timing tax differences, taxable income of approximately $623,000 and $2,895,000 was reported for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, the Corporation has a net operating loss carryover of approximately $7,186,000 which may be carried forward a period of 20 years to offset future taxable income. The net operating loss carryovers begin expiring in 2030.

Note 9 Related Party Transactions

During 2019 and 2018, 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.

Note 9 Related Party Transactions, continued

A summary of these transactions follows:

	Balance Beginning of Year	Additions	Amounts Collected	Balance End of Year
For the year ended: **December 31, 2019**	$ 6,233,698	$ 912,402	$ (1,804,297)	$ 5,341,803
For the year ended: **December 31, 2018**	$ 6,526,692	$ 545,337	$ (838,331)	$ 6,233,698

The Corporation also had unfunded commitments to related parties of approximately $1,140,000 and $1,019,000 at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the Corporation held related party deposits of approximately $5,179,000 and $4,679,000, respectively.

A company owned by a director of the Corporation served as the general contractor for construction of the Oak Harbor branch. Payments totaling $1,015,938 and $711,803 were paid to this company during 2019 and 2018, respectively.

Note 10 Federal Home Loan Bank Borrowings

The Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines 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, 2019.

Advances on these lines at December 31 were as follows:

	2019	2018
Overnight advances (Fed Funds)	$ 20,000,000	$ 22,000,000
Long-term advances	10,000,000	5,000,000
Total	$ 30,000,000	$ 27,000,000

During 2017, a long-term advance was obtained in the amount of $5,000,000. The interest rate on this advance is 2.28%. This advance matures on October 31, 2022. During 2019, a long-term advance was obtained in the amount of $5,000,000. The interest rate on this advance is 2.55%. This advance matures on May 4, 2020. Collateral pledged to the FHLB as of December 31, 2019 and 2018 included loans with outstanding balances of approximately $89,390,000 and $80,872,000, respectively. The Bank has available borrowing capacity of approximately $32,920,000 based on pledged collateral at December 31, 2019.

Note 11 Lines of Credit

At December 31, 2019 and 2018, 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, 2019 or 2018.

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:

	2019	2018
Commitments to extend credit	$ 38,710,000	$ 37,292,000
Standby letters of credit	96,000	14,000

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 2019 or 2018.

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, 2019 and 2018 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, 2019 and 2018, the Corporation had pledged $29,105 and $39,196, 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 $10,590,615 and $623,853 at December 31, 2019 and 2018, respectively. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. 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 Capital

Banks and certain bank holding companies are subject to various regulatory capital requirements administered by the state and 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 financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification 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 (set forth in the table on the following page) of total Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank met all capital adequacy requirements to which it was subject.

In addition to these requirements, banking organizations must maintain a 2.50% capital conservation buffer consisting of common Tier I equity, subject to a transition schedule with a full phase-in by 2019. Effective January 1, 2019, the Bank was required to establish a capital conservation buffer of 2.50%, increasing the minimum required total risk-based capital, Tier I risk-based and common equity Tier I capital to risk-weighted assets it must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

As of December 31, 2019, the most recent notification from the regulatory agencies, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum common equity risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table on the following page. There are no conditions or events since that notification that management believes have changed the Bank's category.

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.

Note 14 Regulatory Capital, continued

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule 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 and is now fully in effect.

Management believes that 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 in effect at December 31, 2018.

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, 2019:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 33,381	11.66%	$ 22,904	8.00%	$ 28,630	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 30,627	10.70%	$ 17,178	6.00%	$ 22,904	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 30,627	10.70%	$ 12,884	4.50%	$ 18,610	6.50%
Leverage Capital (to adjusted Total Average Assets)	$ 30,627	9.97%	$ 12,289	4.00%	$ 15,361	5.00%
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%

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.

Note 16 Stock-Based Compensation

Long-Term Equity Incentive Plan

Effective May 23, 2019, the shareholders approved the adoption of the 2019 Long-Term Equity Incentive Plan (2019 Plan) which provides for the grant of stock awards to eligible employees, officers and non-employee directors. The 2019 Plan replaced the 2013 Long-Term Equity Incentive Plan (2013 Plan), which provided for the grant of up to 100,000 shares. Effective July 25, 2013, the shareholders approved the adoption of the 2013 Long-Term Equity Incentive Plan (2013 Plan) which provided 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 2019 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 2019 Plan shall be 250,000 shares. No more than 50,000 shares of the 250,000 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, 2019, there were 243,000 shares available for future grants under the 2019 Plan.

During 2019, there were 567 and 3,000 stock options granted at an exercise price of $10.92 and $10.50, respectively. These options vest over five years and have a term of 10 years. During 2019, there were 4,000 restricted stock awards granted. The restricted stock awards vest 20% immediately and 20% on the anniversary date for the next four years.

In April 2018, there were 19,055 stock options granted at a price of $10.00 per share, including 11,470 nonqualified stock options granted to non-employee directors. 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 stock options under these Plans was $57,031 and $60,330 for the years ended December 31, 2019 and 2018, respectively.

Note 16 Stock-Based Compensation, continued

Long-Term Equity Incentive Plan, continued

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.

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, 2019 and 2018:

	2019	**2018**
Weighted-average expected term	7.00 years	7.00 years
Expected stock price volatility	41.08%	54.56%
Risk-free interest rate	1.86%	2.67%
Weighted-average risk-free interest rate	1.86%	2.67%
Expected dividends	0%	0%

Note 16 Stock-Based Compensation, continued

Long-Term Equity Incentive Plan, continued

Option activity under the Plan for the years ended December 31, 2019 and 2018 is summarized as follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
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
Outstanding at January 1, 2019	136,341	$ 7.35	8.83
Granted	3,567	10.56	
Exercised	(9,988)	7.06	
Forfeited or cancelled	(3,710)	7.65	
Outstanding at December 31, 2019	126,210	$ 7.45	5.50
Vested or expected to vest at December 31, 2019	126,210	$ 7.45	5.50
Exercisable at December 31, 2019	97,051	$ 7.19	4.86

There were 3,567 and 19,055 options granted during the years ended December 31, 2019 and 2018, respectively. There were 9,988 options exercised during the year ended December 31, 2019 for total proceeds of $70,556. There were no options exercised during 2018.

A summary of the status of the Corporation's nonvested shares as of December 31, 2019, and changes during the year ended December 31, 2019, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	47,503	$ 3.86
Granted	3,567	4.77
Vested	(19,793)	3.33
Forfeited	(2,118)	4.12
Nonvested at December 31, 2019	29,159	$ 4.29

Note 16 Stock-Based Compensation, continued

Long-Term Equity Incentive Plan, continued

As of December 31, 2019, there was $93,771 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 4.75 years.

During 2019, there were 4,000 restricted stock awards granted. The grant date fair value was $10.75. These restricted stock awards vest 20% at the time of grant and 20% on the anniversary date for the next four years. There were no restricted stock awards granted during 2018. As of December 31, 2019, there were 3,200 nonvested restricted stock awards outstanding. As of December 31, 2018, there were no nonvested restricted stock awards outstanding. Stock compensation totaling $12,184 was recorded during 2019 relating to restricted stock awards. At December 31, 2019, there was unrecognized compensation expense relating to these awards totaling $34,400. The Corporation expects to recognize that cost over a period of 3.50 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, 2019 and 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. In December 2017, the expiration date was extended to March 31, 2022. This stock warrant remains outstanding as of December 31, 2019 and 2018.

During 2012, a total of 115,553 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. In December 2017, the expiration date was extended to March 31, 2022. These warrants remain outstanding as of December 31, 2019 and 2018.

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 (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. In December 2017, the expiration date was extended to March 31, 2022. At December 31, 2019 and 2018, there were 7,000 stock warrants outstanding for the Corporation's organizing Directors.

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 2019 and 2018, employer matching contributions to the 401(k) Plan totaled $178,420 and $105,200, respectively.

Note 18 Compensated Absences

Employees of the Corporation are entitled to paid time off (PTO), depending on job classification, length of service and other factors. The Corporation's policy allows employees to accumulate a certain amount of PTO. The amount of PTO recorded at December 31, 2019 and 2018 is $472,981 and $406,690, 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, with the exception of the fair value for loans for 2019 which was calculated in accordance with the 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, 2019 and 2018 are as follows (in thousands):

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 4,438	$ 4,438	$ 4,480	$ 4,480
Interest-bearing deposits with financial institutions	12,790	12,790	9,431	9,431
Federal funds sold	4,040	4,040	-	-
Investment securities	9,767	9,767	11,091	11,091
Federal Home Loan Bank stock	1,521	1,521	1,341	1,341
Pacific Coast Bankers' Bank stock	190	190	190	190
Loans, net	261,600	265,347	225,349	229,103
Interest receivable	747	747	653	653
SBA servicing asset	658	658	689	689
Financial liabilities:				
Deposits	248,628	250,516	208,437	208,933
FHLB borrowings	30,000	30,057	27,000	26,901
Interest payable	246	246	155	155

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 fully 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 fully 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 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.

Note 20 Fair Value Measurements, continued

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 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.

Note 20 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value. At December 31, 2019 and 2018, 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, 2019				
Available-for-Sale				
U.S. Government agency	$ -	$ 761,007	$ -	$ 761,007
Municipal bonds	-	1,380,085	-	1,380,085
U.S. Government agency mortgage-backed securities	-	147,200	-	147,200
Collateralized mortgage obligations	-	478,559	-	478,559
SBA pools	-	6,746,763	-	6,746,763
Corporate bonds	-	253,524	-	253,524
Totals	$ -	$ 9,767,138	$ -	$ 9,767,138
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

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.

Note 20 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2019 and 2018, 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, 2019:				
Impaired loans	$ -	$ 304,335	$ 907,715	$ 1,212,050
Less specific valuation allowance for possible loan losses	-	(85,806)	(70,354)	(156,160)
Impaired loans, net	$ -	$ 218,529	$ 837,361	$ 1,055,890
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

A reconciliation of assets measured using Level 3 inputs for the years ended December 31, 2019 and 2018 is provided below:

	December 31, 2019	December 31, 2018
Opening Balance	$ 1,050,148	$ 1,554,891
(a) Transfers into Level 3	2,772	9,920
(b) Transfers out of Level 3	-	-
Settlements/payments	(145,205)	(514,663)
Ending Balance	$ 907,715	$ 1,050,148

(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, 2019 and 2018, the Corporation had other real estate owned totaling $484,526 and $430,989, respectively. Fair values were determined using Level 2 measurements.

The following tables presents foreclosed assets that were remeasured and reported at fair value:

	2019	2018
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ 30,410	$ -
Charge-offs recognized in the allowance for loan losses	-	-
Fair Value	$ 30,410	$ -
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ 142,208	$ -
Writedowns included in other non-interest expense	(42,208)	-
Fair Value	$ 100,000	$ -

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.

OTHER FINANCIAL INFORMATION

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019

	SAVI FINANCIAL	SAVI BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2019
ASSETS				
Cash and due from banks	$ 7,147	$ 4,437,650	$ (7,147)	$ 4,437,650
Interest-bearing deposits with banks	157,413	12,633,144	-	12,790,557
Federal funds sold	-	4,039,725	-	4,039,725
Investment securities	-	9,767,138	-	9,767,138
Federal Home Loan Bank stock	-	1,521,000	-	1,521,000
Pacific Coast Bankers' Bank stock	-	190,000	-	190,000
Investment in subsidiary	32,523,341	-	(32,523,341)	-
Loans receivable, net of allowance for loan losses and deferred loan fees and costs	-	261,600,020	-	261,600,020
Premises and equipment	-	14,407,633	-	14,407,633
Other real estate owned	-	484,526	-	484,526
Accrued interest receivable	-	747,009	-	747,009
Deferred tax asset	91,826	1,250,635	-	1,342,461
SBA servicing asset	-	657,733	-	657,733
Other assets	6,667	821,806	-	828,473
Total Assets	$ 32,786,394	$ 312,558,019	$ (32,530,488)	$ 312,813,925
LIABILITIES				
Deposits	$ -	$ 248,635,053	$ (7,147)	$ 248,627,906
Federal Home Loan Bank borrowings	-	30,000,000	-	30,000,000
Accrued interest payable	-	245,538	-	245,538
Accrued expenses and other liabilities	-	1,154,087	-	1,154,087
Total Liabilities	-	280,034,678	(7,147)	280,027,531
Shareholders' Equity				
Common stock-voting, No par value 10,000,000 shares authorized; 3,433,472 issued and outstanding	28,233,128	37,465,527	(37,465,527)	28,233,128
Additional paid in capital	451,105	451,105	(451,105)	451,105
Retained earnings (deficit)	4,111,573	(5,383,879)	5,383,879	4,111,573
Accumulated other comprehensive loss	(9,412)	(9,412)	9,412	(9,412)
Total Shareholders' Equity	32,786,394	32,523,341	(32,523,341)	32,786,394
Total Liabilities and Shareholders' Equity	$ 32,786,394	$ 312,558,019	$ (32,530,488)	$ 312,813,925

Refer to Report of Independent Registered Public Accounting Firm.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2019

	SAVI FINANCIAL	SAVI BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2019
Interest income				
Interest and fees on loans	$ -	$ 14,439,769	$ -	$ 14,439,769
Interest on investment securities	-	284,785	-	284,785
Interest on federal funds sold and interest-bearing deposits with financial institutions	3,950	367,424	-	371,374
Total interest income	3,950	15,091,978	-	15,095,928
Interest expense				
On deposits	-	2,641,168	-	2,641,168
On borrowed funds	-	555,627	-	555,627
Total interest expense	-	3,196,795	-	3,196,795
Net interest income	3,950	11,895,183	-	11,899,133
			-	
Provision for loan losses - Note 4	-	427,816	-	427,816
Net interest income after provision for loan losses	3,950	11,467,367	-	11,471,317
Non-interest income				
Service charges on deposit accounts	-	374,453	-	374,453
Undistributed income of subsidiary	1,537,855	-	(1,537,855)	-
Gain on sales of SBA loans (guaranteed portion)	-	405,603	-	405,603
Gain on sales of other real estate owned	-	44,078	-	44,078
Net gain on sales of premises and equipment	-	3,545	-	3,545
Rental income	-	86,950	-	86,950
Other	-	370,740	-	370,740
Total non-interest income	1,537,855	1,285,369	(1,537,855)	1,285,369
Non-interest expense				
Salaries and employee benefits	77,204	6,727,895	-	6,805,099
Occupancy and equipment	-	1,483,864	-	1,483,864
Data processing fees	-	415,105	-	415,105
Professional fees	42,614	136,101	-	178,715
FDIC assessment	-	116,000	-	116,000
OREO expense and writedowns	-	86,415	-	86,415
Directors and officers insurance	-	79,201	-	79,201
Director fees	-	117,246	-	117,246
Regulatory examination fees	-	45,901	-	45,901
B & O taxes	-	251,634	-	251,634
Other expense	42,104	1,334,899	-	1,377,003
Total non-interest expense	161,922	10,794,261	-	10,956,183
Income before federal income tax (benefit)	1,379,883	1,958,475	(1,537,855)	1,800,503
Federal income tax (benefit) - Note 8	(33,174)	420,620	-	387,446
Net Income	$ 1,413,057	$ 1,537,855	$ (1,537,855)	$ 1,413,057

Refer to Report of Independent Registered Public Accounting Firm.