GBank Financial Holdings Inc. and Subsidiary

Consolidated Financial Report
December 31, 2019

Contents

Independent auditor's report 1

Financial statements

Consolidated balance sheets 2

Consolidated statements of income 3

Consolidated statements of comprehensive income 4

Consolidated statements of stockholders' equity 5

Consolidated statements of cash flows 6

Notes to consolidated financial statements 7-33

Independent Auditor's Report

RSM US LLP

To the Audit Committee
GBank Financial Holdings Inc. and Subsidiary
Las Vegas, Nevada

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of GBank Financial Holdings Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

RSM US LLP

Las Vegas, Nevada
March 20, 2020

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GBank Financial Holdings Inc. and Subsidiary
Consolidated Balance Sheets

	December 31,	
	2019	**2018**
Assets		
Cash and due from banks	$ 101,501,966	$ 57,544,104
Securities available for sale	3,453,159	3,927,906
Federal Home Loan Bank (FHLB) stock, at cost	917,900	683,100
Loans held for sale	35,184,366	20,093,733
Loans, net	191,634,590	146,335,032
Premises and equipment, net	1,466,687	1,432,660
Bank-owned life insurance	2,935,907	2,873,676
Deferred tax asset, net	471,535	393,661
Loan servicing assets	4,800,703	4,133,480
Accrued interest receivable and other assets	1,966,249	1,024,410
Total assets	$ 344,333,062	$ 238,441,762
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 128,247,753	$ 103,474,286
Interest-bearing:		
Demand	25,976,054	26,691,591
Savings	102,098,206	63,568,823
Time, $250,000 or more	12,015,979	2,030,478
Time, under $250,000	28,503,374	4,633,277
Total deposits	296,841,366	200,398,455
Accrued interest payable and other liabilities	4,791,326	3,527,683
Total liabilities	301,632,692	203,926,138
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.0001 par value; 50,000,000 shares authorized; shares issued and outstanding: 9,605,508 (2019) and 9,097,224 (2018)	960	910
Additional paid-in capital	36,655,476	33,831,411
Retained earnings	6,057,884	728,803
Accumulated other comprehensive loss	(13,950)	(45,500)
Total stockholders' equity	42,700,370	34,515,624
Total liabilities and stockholders' equity	$ 344,333,062	$ 238,441,762

See notes to consolidated financial statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Income

	Years Ended December 31,	
	2019	2018
Interest income on:		
Loans	$ 14,937,672	$ 9,931,637
Federal funds sold and other	1,204,596	1,187,218
Securities available for sale	90,834	99,441
Total interest income	16,233,102	11,218,296
Interest expense on:		
Deposits	2,061,080	746,643
Total interest expense	2,061,080	746,643
Net interest income	14,172,022	10,471,653
Provision for loan losses	1,479,000	400,000
Net interest income after provision for loan losses	12,693,022	10,071,653
Noninterest income:		
Gain on sale of loans	3,874,189	4,390,041
Loan servicing fee income	705,529	429,959
Other fee income	362,392	228,751
Service charges	217,876	216,763
Total noninterest income	5,159,986	5,265,514
Noninterest expenses:		
Salaries and employee benefits	6,449,852	5,552,320
Occupancy	1,391,551	1,151,152
Data processing	1,099,912	807,188
Legal and professional fees	525,006	554,947
Other	499,700	415,732
Audits and exams	331,990	240,916
Supplies	230,821	170,555
Servicing fees	189,707	86,985
Travel and auto	157,690	127,643
Other insurance	81,143	72,905
Telephone and data	65,130	33,424
Donations	35,783	38,817
Marketing	30,725	57,771
Federal Deposit Insurance Corporation insurance	15,948	60,414
Total noninterest expenses	11,104,958	9,370,769
Income before income tax expense	6,748,050	5,966,398
Income tax expense	1,418,969	1,272,798
Net income	$ 5,329,081	$ 4,693,600

See notes to consolidated financial statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2019	**2018**
Net income	$ 5,329,081	$ 4,693,600
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities available for sale	39,937	(9,190)
Income tax (benefit) related to other comprehensive loss	(8,387)	1,930
Total other comprehensive income (loss), net of tax	31,550	(7,260)
Comprehensive income	$ 5,360,631	$ 4,686,340

See notes to consolidated financial statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2019 and 2018

	Common Shares		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Number (000)	Amount				
Balance, December 31, 2017	8,705	$ 871	$33,164,119	$ (3,971,089)	$ (31,948)	$ 29,161,953
Common stock issuance	19	2	-	-	-	2
Option and warrant exercise	373	37	559,024	-	-	559,061
Stock compensation expense	-	-	108,268	-	-	108,268
Net income	-	-	-	4,693,600	-	4,693,600
Impact of ASU 2018-02 as of January 1, 2018	-	-	-	6,292	(6,292)	-
Other comprehensive loss	-	-	-	-	(7,260)	(7,260)
Balance, December 31, 2018	9,097	910	33,831,411	728,803	(45,500)	34,515,624
Common stock issuance	483	45	2,654,673	-	-	2,654,718
Option and warrant exercise	26	5	38,957	-	-	38,962
Stock compensation expense	-	-	130,435	-	-	130,435
Net income	-	-	-	5,329,081	-	5,329,081
Other comprehensive income	-	-	-	-	31,550	31,550
Balance, December 31, 2019	9,606	$ 960	$36,655,476	$ 6,057,885	$ (13,950)	$ 42,700,370

See notes to consolidated financial statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 5,329,081	$ 4,693,600
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	1,479,000	400,000
Depreciation and amortization	409,082	315,086
Net amortization of securities premium	7,740	10,843
Stock compensation expense	130,435	108,268
Gain on sale of fixed asset	-	(2,450)
Gain on sale of loans	(3,874,189)	(4,390,041)
Gross originations of loans held for sale	(109,820,143)	(97,019,992)
Proceeds from sale of loans held for sale	96,507,968	86,769,603
Capitalized mortgage servicing rights	2,095,731	2,030,318
Income from bank-owned life insurance	(62,231)	(61,033)
Net change in deferred income taxes	(86,256)	911,433
Increase in accrued interest receivable	(348,175)	(250,493)
Increase in other assets	(1,260,888)	(1,296,535)
Increase in accrued interest payable and other liabilities	1,263,643	1,590,325
Net cash used in operating activities	(8,229,201)	(6,191,068)
Cash flows from investing activities:		
Purchases of premises and equipment	(443,109)	(620,068)
Proceeds from sale of equipment	-	2,450
Proceeds from principal paydowns on securities available for sale	506,939	921,749
Purchase of FHLB stock	(234,800)	-
Net change in loans	(46,778,558)	(25,860,657)
Proceeds from matured interest-bearing time deposits in financial institutions	-	700,000
Net cash used in investing activities	(46,949,528)	(24,856,526)
Cash flows from financing activities:		
Net increase in deposits	96,442,911	23,126,558
Net proceeds from issuance of common stock	2,654,718	-
Net proceeds from option and warrant exercise	38,962	559,061
Net cash provided by financing activities	99,136,591	23,685,619
Net increase (decrease) in cash and cash equivalents	43,957,862	(7,361,975)
Cash and cash equivalents:		
Beginning of year	57,544,104	64,906,079
End of year	$ 101,501,966	$ 57,544,104
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 1,890,363	$ 721,632
Cash payments for income tax	$ 1,743,777	$ 283,415

See notes to consolidated financial statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business

These financial statements are prepared on a consolidated basis for GBank Financial Holdings Inc. ("GBFH") and its wholly owned subsidiary, Bank of George ("BG"). References herein to "Company" refer to the consolidated entity and its financial statements.

GBFH is a bank holding company whose subsidiary, BG, provides banking services to commercial and consumer customers. GBFH is subject to regulation by the Federal Reserve Bank of San Francisco, California ("FRB") and the State of Nevada Department of Business and Industry, Financial Institutions Division ("NFID"). As a state-chartered bank, BG is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC") and the NFID.

BG was incorporated on May 11, 2007, and commenced operations on September 24, 2007. BG's business is concentrated in the Las Vegas, Nevada area and is subject to the general economic conditions of that area. In addition to the community banking services offered in the Las Vegas market, ("Local Market"), BG initiated a government guaranteed loan program in 2015 involving the origination and sale of loans guaranteed by the Small Business Administration ("SBA") and the United States Department of Agriculture ("USDA").

The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP") and conform to practices within the financial services industry.

Subsequent events have been evaluated for potential recognition and disclosure through March 20, 2020, the date the financial statements were available to be issued.

Principles of consolidation

During the year ended December 31, 2017, stockholders of Bank of George exchanged their common stock in Bank of George for common stock in the newly formed holding company, GBank Financial Holdings Inc. The transaction was accounted for at historical cost, similar to that in pooling-of-interests accounting.

The consolidated financial statements as of and for the years ended December 31, 2019 and 2018 include the accounts of GBFH and BG. All significant intercompany balances and transactions were eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the impairment of the servicing asset and the realization of deferred tax assets.

Reclassifications

Certain amounts reported in prior periods may have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

Concentration of credit risk: Most of the Company's activities are with customers located within southern Nevada. Note 4 discusses the types of loans in which the Company invests.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Company considers cash on hand, amounts due from banks, and interest-bearing deposits at other financial institutions that have original maturities of three months or less to be cash and cash equivalents. Cash flows from loans originated by the Company, interest-bearing time deposits in financial institutions and deposits are reported net.

The Company maintains amounts due from banks, which at times may exceed federally insured limits. No losses have been experienced in such accounts.

Securities available-for-sale

Securities classified as available-for-sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported as a separate component of other comprehensive income (loss). The amortization of premiums and accretion of discounts are recognized in interest income over their contractual lives. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market conditions 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, including an evaluation of credit ratings, (3) the impact of changes in market interest rates, (4) the intent of the Company to sell a security, and (5) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis.

If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income (loss).

Loans held for sale

Loans held for sale are those loans that the Company has the intent to sell in the foreseeable future. The Company's loans held for sale consist primarily of commercial real estate secured loans that are guaranteed in part by the Small Business Administration, which are not fully funded. The time frame for a loan to be fully funded can range from immediately upon closing to over a year, as in the case of a loan that includes loan proceeds for additional construction or improvements to the property securing the loan.

Upon full funding, the Company will generally sell the guaranteed portion of the loan and retain the unguaranteed portion as a loan held for investment. The Company also generally retains the right to service the loans that are sold. The Company issues various representations and warranties associated with the sale of loans. No losses have been incurred resulting from these provisions.

Loans held for sale are recorded at the lower of cost or market value, which is computed by the aggregate method. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on the sale of loans are recognized pursuant to Accounting Standards Codification 860, Transfers and Servicing.

Interest income on these loans is accrued daily. Loan origination fees and costs and origination fees and income on loans held for sale are amortized over the estimated life of the loan until the loan is sold.

Loans held for investment

The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Net loans are stated at the amount of unpaid principal, adjusted for net deferred fees, costs and unamortized discount and an allowance for loan losses.

Allowance for loan and lease losses

Loans are classified according to the nature of the loan and the collateral securing the loan. The classifications of loans are as follows:

Commercial and industrial loans: Commercial and industrial loans are loans for commercial, corporate and business purposes, including issuing letters of credit. Repayment of these loans is generally largely dependent on the successful operations of the business. The Company's commercial business loan portfolio comprises loans for a variety of purposes and is generally secured by equipment, machinery and other business assets. Commercial business loans generally have terms of five years or less and interest rates that float in accordance with a designated published index. Substantially all such loans are secured and backed by the personal guarantees of the owners of the business.

Commercial real estate loans: Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping centers and various special-purpose properties, including hotels and restaurants. These include loans made in the Company's local market as well as SBA and USDA loans made in other states. Repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Although terms vary, commercial real estate loans generally have amortizations of 15 to 25 years, as well as balloon payments of two to five years, and terms which provide that the interest rates thereon may be adjusted annually at the Company's discretion, based on a designated index.

Construction and land development loans: Construction and land development loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms of one year to 18 months during the construction period and interest rates based on a designated index.

Residential real estate loans: Residential 1-4 family loans, including home equity lines of credit are generally smaller in size and are homogenous because they exhibit similar characteristics. Repayment for residential single-family loans is largely dependent upon the personal cash flow of the individual borrowers. Residential multifamily loans generally involve a greater degree of credit risk than residential single-family loans as repayment is dependent on the successful operation of the project. This loan type is sensitive to adverse economic conditions.

Consumer and other loans: Consumer and other loans are not significant.

The allowance for loan and lease losses ("ALLL") consists of specific and general components. The specific component relates to loans that are classified as impaired.

A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Impaired loans are measured for reserve requirements in accordance with ASC 310, Receivables, 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 less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are recorded as a provision for credit losses. Losses are recorded as a charge-off when losses are confirmed. In addition to management's internal loan review process, regulators may from time to time direct the Company to modify loan grades, loan impairment calculations, or loan impairment methodology.

The valuations for 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. The amount of impairment, if any, is the deficit between the carrying value of the impaired loan and the valuation of the impaired loan. This amount is added to the ALLL as a specific component.

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

The general component covers non-impaired loans and is based on the Company's historical loan losses and peer bank loss experience, adjusted for qualitative and environmental factors.

The ALLL is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The ALLL is maintained at an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectable, based on an evaluation of the collectability of loans and the Company's historical loan losses and peer bank loss experience. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make additions to the ALLL based on their judgment about information available to them at the time of their examinations.

Troubled debt restructured loan

A loan is classified as a troubled debt restructured ("TDR") when a borrower is experiencing financial difficulties that leads to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. A loan that is modified at a market rate of interest may no longer be classified as TDR in the year subsequent to the restructuring if it is in compliance with the modified terms. Performance prior to the restructuring is considered when assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of the restructuring or after a shorter performance period.

Interest and fees on loans

Interest on loans is recognized over the terms of the loans and is generally calculated using the effective interest method. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Cash collections on impaired loans are generally credited to the loan receivable balance and no interest income is recognized on these loans until the principal balance has been collected. *Delinquent loans:* The Company determines a loan to be delinquent when payments have not been made according to the contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer loans are typically charged off no later than 180 days delinquent.

Non-accrual loans: When a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. The Company ceases accruing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if the loans are well secured by collateral and in the process of collection. For all loan types, when a loan is placed on non-accrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed, and the Company makes a loan-level decision to apply either the cash basis or cost recovery method. The Company recognizes income on a cash basis only for those non-accrual loans for which the collection of the remaining principal balance is not in doubt. Under the cost recovery method, subsequent payments received from the customer are applied to principal and generally no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required.

Loan origination and commitment fees, certain direct loan origination costs and discounts on the retained portions of USDA and SBA loans are deferred and the net amounts amortized as an adjustment of the related loan's yield. The Company is generally amortizing these amounts over the estimated life of the loan. Commitment fees based upon a percentage of a customer's unused line of credit and fees related to standby letters of credit are generally recognized over the commitment period.

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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of a "participating interest" in order to account for the transfer as a sale. Following are the characteristics of a participating interest:

- Pro rata ownership in an entire financial asset.
- From the date of the transfer, all cash flows received from entire financial assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership.
- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a

participating interest holder.

- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives: improvements, 10 to 15 years and equipment, furniture and automobiles, three to seven years. Improvements are depreciated over the shorter of the term of the lease or life of the improvements.

Other real estate owned

Assets acquired through foreclosure or other proceedings are initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan and lease losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value, and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Net revenues from the operations of foreclosed assets are included in noninterest income. Changes in the valuation allowance are included in other expenses. At December 31, 2019, 2018 and 2017, the Company had no other real estate owned, and accordingly, had no valuation allowance charged against the carrying value of such assets.

Bank-owned life insurance

Bank-owned life insurance is stated at its cash surrender value with changes recorded in other noninterest income in the consolidated statement of income. The face amount of the underlying policies, including death benefits, was approximately $8,233,000, with cash surrender value of approximately $2,936,000 and $2,874,000 as of December 31, 2019 and 2018, respectively.

Federal Home Loan Bank stock

The Company is a member of the Federal Home Loan Bank (“FHLB”) system and is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1 percent of its Membership Asset Value or 4.7 percent of advances from the FHLB. The stock is recorded at cost, which is also the redemption value. FHLB stock is bought from and sold to the FHLB at its $100 par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in values. The FHLB of San Francisco capital ratios exceeded the required ratios as of December 31, 2019; consequently, the Company does not believe that its investment in the FHLB stock is impaired as of this date.

Intangible assets – loan servicing rights

The Company’s intangible assets consist primarily of the right to service the guaranteed portion of SBA and USDA loans sold to others. The fair value of the servicing asset is essentially a valuation of the net future income stream, which is based on the rate of the fee, the estimated repayment speed of the loan and the estimated cost to service the loan.

The amount allocated to the loan servicing rights is recorded at fair value at the time of sale, as calculated by a third party consulting firm specializing in government guaranteed loan matters.

The fair value of the servicing asset is calculated for each loan using the following valuation variables:

- *Servicing fee*. This is the amount of the fee charged to a third party buyer to service the loan. It is generally one percent (1%) of the loan balance on a declining basis as the loan repays principal.
- *Prepayment assumption*. This is an estimate of the repayment speed of the loan using a constant prepayment rate ("CPR") based on pools of similar SBA loans.
- *Servicing costs.* This is an estimate of the cost of servicing a loan which is established at 0.40%, based on information from industry experts and a cost study performed by the National Association of Government Guaranteed Lenders.
- *Internal rate of return.* The internal rates of return (IRR) are the pretax yield rates used to discount the expected future cash flow stream from servicing the SBA loan portfolio.

The loan servicing asset is being amortized over the period of estimated servicing income, with the amortization being recorded against loan servicing income.

The balance of loans owned by third parties that are being serviced by the Company was $228,199,377 and $170,767,914 as of December 31, 2019 and 2018, respectively.

The following table presents a reconciliation of loan servicing rights:

	2019	2018
Balance, beginning of year	$ 4,133,480	$ 2,990,991
Additions – loans sold	2,095,731	2,030,317
Reductions – amortization and early loan payoffs	(1,428,507)	(887,828)
Balance, end of year	$ 4,800,703	$ 4,133,480

In the event of an early repayment of a serviced loan, the unamortized balance of the loan servicing asset for that loan is charged off against loan servicing income.

The aggregate balance for loan servicing rights are evaluated annually for impairment to ensure that the recorded balance is at the lower of amortized cost or fair value. The fair value of servicing rights at December 31, 2019 was determined by an independent consultant to be $4,966,977. Accordingly, the Company's servicing assets were not impaired as of December 31, 2019. The fair value of a portion of the servicing rights was measured in December 2018 and it was determined that the fair value at that time was lower than cost by an immaterial amount. No write down in the basis of servicing rights was recorded in 2018.

Revenue recognition

The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer.

Services within the scope of ASC 606 and a description of the revenue recognition policy are as follows:

Service charges on deposit accounts. Income from service charges on deposit accounts are recognized when an account is subject to a charge, as in the case of an overdraft or a balance falling below the level required for a maintenance fee waiver.

Interchange fees. Interchange fees represent fees charged for the electronic transfer of funds between a customer and a third party. Fees are recognized when an interchange transaction is posted in accordance with the agreement with the customer.

Wire transfer fees. Income from wire transfer fees are recognized when a fee is charged to a customer's account, which occurs at the time a wire transfer is processed.

Miscellaneous fees. Miscellaneous fees for services such as account balancing assistance, response to a customer request for copies, etc. are charged when the services are performed.

The adoption of ASC 606 did not have a material impact on the Company's revenue recognition policy as the policy was in compliance with ASC 606 previously.

Advertising costs

Advertising costs are expensed as incurred.

Income taxes

Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Stock option plan

As further described in Note 14, the Company grants stock options to its employees and directors. Pursuant to accounting guidance, the Company records compensation expense based upon the grant-date fair value of option awards. Such values are recorded over the requisite service period using the straight-line method.

Equity incentive plan

As further described in Note 15, the Company grants restricted stock to its employees and directors. Pursuant to accounting guidance, the Company records compensation expense based upon the grant-date fair value of option awards. Such values are recorded over the requisite service period using the straight-line method.

Off-balance-sheet instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods

within the fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The updated standard applies to all entities. The updated standard is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated standard will be effective for fiscal years beginning after December 15, 2022. Early application is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* ASU 2018-13 modifies required fair value disclosures related primarily to level 3 investments. ASU 2018-13 will be effective for the Company beginning on January 1, 2020. The Company is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

Recently adopted accounting guidance

In May 2014, the FASB issued guidance within ASU 2014-09, *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 to ASC 606, *Revenue from Contracts with Customers*, creates a common revenue standard and clarifies the principles for recognizing revenue that can be applied consistently across various transactions, industries, and capital markets. The Company adopted ASU 2014-09 on January 1, 2019. Substantially all of the Company's revenue is generated from interest income related to loans and investment securities, which are not within the scope of this guidance. The Company completed its review of contracts and other agreements that are within the scope of this guidance and did not identify any material changes to the timing or amount of revenue recognition. Accordingly, the Company did not recognize an adjustment to retained earnings upon adoption of this guidance. The Company's accounting policies did not change materially since the principles of revenue recognition in the ASU are largely consistent with current practices applied by the Company.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU is intended to simplify various aspects of accounting for share-based compensation arrangements, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For example, the new guidance requires all excess tax benefits and tax deficiencies related to share-based payments to be recognized in income tax expense, and for those excess tax benefits to be recognized regardless of whether they reduce current taxes payable. The ASU also allows an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. ASU 2016-09 was effective for the Company beginning on January 1, 2018 and did not have a material effect on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The ASU allows entities to make a one-time reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the effects of re-measuring deferred tax liabilities and assets originally recorded in other comprehensive income as a result of the change in the federal tax rate by the Tax Cut and Jobs Act (TCJA). The effective date for all entities that elect to make the reclassification is for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in financial statements for fiscal years or interim periods that have not been issued or made available for issuance as of February 14, 2018. Upon adoption, an entity can elect to apply the guidance either: (a) at the beginning of the period (annual or interim) of

adoption or (b) retrospectively to each period (or periods) in which the income tax effects of the TCJA related to items remaining in AOCI are recognized. Certain transition disclosures are to be required. This guidance was adopted in 2018 and did not have a material effect on the Company's financial statements.

In June 2018, the FASB issued guidance within ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in ASU 2018-07 to Topic 718, *Compensation-Stock Compensation*, are intended to align the accounting for share-based payment awards issued to employees and nonemployees. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, *Revenue from Contracts with Customers*. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company's share-based payment awards to nonemployees consist only of grants made to members of the Company's Board of Directors ("BOD") as compensation solely related to the individual's role as a Director. As such, in accordance with ASC 718, the Company accounts for these share-based payment awards to its Directors in the same manner as share-based payment awards for its employees. Accordingly, the amendments in this guidance did not have an effect on the accounting for the Company's share-based payment awards to its Directors.

Subsequent events

In the first quarter of 2020, the World Health Organization declared a global health pandemic due to the spread of the "COVID-19" virus. The economic impacts of such pandemic are not yet fully known, but it is expected there will be broad economic impacts across many industries in the United States. Such economic impacts could impact in the Bank's ability to collect on its loans receivable.

To both support the borrowers and to mitigate any risk of loss on loans, on March 17, 2020, the Company implemented a voluntary loan payment deferral program wherein all borrowers may request a deferment of all loan payments for a period of ninety days, at which point, the payment schedule will be recalculated and payments will resume. Such a request, if approved, will not reduce the interest rate or forgive any principal on the loan.

The financial statements do not include any adjustments as a result of this subsequent event.

Note 2. Restrictions on cash and due from banks

Pursuant to 12 C.F.R. 204 (Regulation D), the Company is required to maintain minimum cash reserves in order to meet immediate withdrawals against its transaction accounts. The required reserves are composed of currency kept in the Company's vault, with the balance in the form of a restricted amount of funds maintained in the Company's account at the Federal Reserve Bank. The amount of the restricted balance with the Federal Reserve Bank of San Francisco was approximately $ 4,572,000 and $2,693,000 as of December 31, 2019 and 2018, respectively.

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Note 3. Securities

Amortized cost and estimated fair values of securities, all of which are mortgage-backed securities ("MBS") available-for-sale are summarized as follows as of December 31:

	2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Residential MBS	$ 3,470,817	$ 6,506	$ (24,164)	$ 3,453,159

	2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Residential MBS	$ 3,985,496	$ 1,411	$ (59,001)	$ 3,927,906

The actual maturities of mortgage-backed securities may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties. Therefore, maturity schedules are not presented for these securities.

There were no realized gains or losses from the sale of securities available-for-sale during the years ended December 31, 2019, 2018 or 2017.

As of December 31, 2019, the Company's securities with an approximate market value of $723,877 were pledged for debt borrowing purposes (see Note 7).

Information pertaining to Residential MBS securities with gross unrealized losses and the length of time that individual securities have remained in a continuous loss position are as follows as of December 31:

2019					
Less Than 12 Months		Over 12 Months		Total	
Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
$ -	$ -	$ (24,164)	$ 2,773,068	$ (24,164)	$ 2,773,068

2018					
Less Than 12 Months		Over 12 Months		Total	
Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
$ (3,149)	$ 1,683,041	$ (55,852)	$ 1,988,769	$ (59,001)	$ 3,671,810

As of December 31, 2019 and 2018, there were four and six securities, respectively, that had unrealized losses of approximately 0.5 and 1 percent from the Company's amortized cost basis, respectively. These unrealized losses

relate primarily to fluctuations in the current interest rate environment. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred, and various industry analysis reports. There were no Company securities downgraded during 2019 and 2018. As of December 31, 2019, management has determined that no declines are deemed to be other-than-temporarily impaired.

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Note 4. Loans

The principal balances of the loans held for investment are listed below as of December 31:

	2019		
	Local Market Loans	SBA and USDA Loans	Total Loans
Commercial and industrial	$ 12,315,920	$ 2,332,860	$ 14,648,780
Real estate:			
Commercial	63,243,479	94,367,647	157,611,126
Construction and land development	3,734,641	-	3,734,641
Residential, including multifamily	20,825,901	-	20,825,901
Consumer	69,686	-	69,686
Gross Loans	100,189,627	96,700,507	196,890,134
Net deferred loan costs	(50,893)	3,325,502	3,274,609
Unamortized discount	-	(5,473,108)	(5,473,108)
Net Investment	100,138,734	94,552,901	194,691,635
Allowance for loan losses	(1,491,018)	(1,566,027)	(3,057,045)
Loans, Net of Allowance	$ 98,647,716	$ 92,986,874	$191,634,590

	2018		
	Local Market Loans	SBA and USDA Loans	Total Loans
Commercial and industrial	$ 12,056,114	$ 2,617,671	$ 14,673,785
Real estate:			
Commercial	54,798,042	70,192,765	124,990,807
Construction and land development	3,797,887	-	3,797,887
Residential, including multifamily	8,198,864	-	8,198,864
Consumer	67,766	-	67,766
Gross Loans	78,918,673	72,810,436	151,729,109
Net deferred loan costs	(98,400)	1,853,187	1,754,787
Unamortized discount	-	(4,878,896)	(4,878,896)
Net Investment	78,820,273	69,784,727	148,605,000
Allowance for loan losses	(1,008,687)	(1,261,281)	(2,269,968)
Loans, Net of Allowance	$ 77,811,586	$ 68,523,446	$146,335,032

The net deferred loan costs represent the costs incurred to originate the loans, net of fees paid by the borrower. The discount represents the discount on the retained portion of SBA and USDA loans whose government guaranteed portions are sold. The deferred loan costs are measured and recorded at the date the loan is originated. The

discount is measured at the date the guaranteed portion of the loan is sold, based on the relative fair value of the retained loan as calculated by an independent consulting firm.

The principal balances of loans held for sale as of December 31 are as listed below:

	2019	2018
Commercial Real Estate Loans:		
Gross Loan Balances	$ 46,912,488	$ 26,791,643
Less Unguaranteed Portions to be retained reported as held for investment in the above table	11,728,122	6,697,910
Amount Held for Sale, Net	$ 35,184,366	$ 20,093,733

As of December 31, 2019, Company loans with an approximate carrying value of $29,690,000 were pledged for debt borrowing purposes (see Note 7).

The following table presents the contractual aging of the gross loan balances in past-due and nonaccrual loans by class of loans as of December 31:

	2019					
	Current	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total	Nonaccrual
Commercial and industrial	$ 14,648,780	$ -	$ -	$ -	$ 14,648,780	$ -
Commercial real estate	157,611,126	-		-	157,611,126	-
Construction and land development	3,734,641	-	-	-	3,734,641	-
Residential real estate	20,825,901	-	-	-	20,825,901	-
Consumer	69,686				69,686	
Total	$ 196,890,134	$ -	$ -	$ -	$ 196,890,134	$ -

	2018					
	Current	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total	Nonaccrual
Commercial and industrial	$ 14,673,785	$ -	$ -	$ -	$ 14,673,785	$ -
Commercial real estate	124,990,807	-	-	-	124,990,807	-
Construction and land development	3,797,887	-	-	-	3,797,887	-
Residential real estate	8,198,864	-	-	-	8,198,864	-
Consumer	67,766	-	-	-	67,766	-
Total	$ 151,729,109	$ -	$ -	$ -	$ 151,729,109	$

Management regularly reviews the problem loans in the Company’s portfolio to determine whether any assets require classification in accordance with the Company’s policy and applicable regulations. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements. The Company’s internal credit risk-grading system is based on experiences with similarly graded loans.

The Company’s internally assigned grades are as follows:

Pass: Loans that are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Loans in this grade are further broken down into sub-grades ranging from A to E in order to provide for additional granularity in the analyses that are performed.

Special Mention: Loans where a potential weakness or risk exists that could cause a more serious problem if not corrected.

Substandard: Loans that have a well-defined weakness based on objective evidence and can be characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make full collection or liquidation highly questionable and improbable, based upon the existing circumstances.

Loss: Loans classified as a loss are considered uncollectable, or of such value that continuance as an asset is not warranted.

The following table represents credit exposures by internally assigned grades for the years ended December 31:

	2019					
	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
Pass	$ 14,648,780	$ 157,611,126	$ 3,734,641	$ 20,825,901	$ 69,686	$ 196,890,134
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 14,648,780	$ 157,611,126	$ 3,734,641	$ 20,825,901	$ 69,686	$ 196,890,134

	2018					
	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
Pass	$ 13,337,789	$ 124,990,807	$ 3,797,887	$ 8,198,864	$ 67,766	$ 150,393,113
Special mention	1,335,996	-	-	-	-	1,335,996
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 14,673,785	$ 124,990,807	$ 3,797,887	$ 8,198,864	$ 67,766	$ 151,729,109

There were no impaired loans as of December 31, 2019 or 2018.

There was no interest income recognized on a cash basis relating to nonaccrual loans during the years ended December 31, 2019 or 2018. As of December 31, 2019 and 2018, the Company was not committed to lend additional funds on any impaired loans.

The level of the allowance reflects management's continuing evaluation of product and industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off.

The following is a summary of activity for the allowance for loan losses for the years ended December 31:

	2019	2018
Beginning balance	$ 2,269,968	$ 1,869,307
Provision for loan losses	1,479,000	400,000
Amounts recovered	2,715	661
Amounts charged off	(694,638)	-
Ending balance	$ 3,057,045	$ 2,269,968

The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended December 31:

	2019					
	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
Beginning balance	$ 236,227	$ 1,867,188	$ 77,270	$ 89,272	$ 11	$ 2,269,968
Provision for loan losses	696,510	639,149	(486)	142,973	854	1,479,000
Amounts recovered	2,715	-	-	-	-	2,715
Amounts charged off	(694,638)	-	-	-	-	(694,638)
Ending balance	$ 240,814	$ 2,506,337	$ 76,784	$ 232,245	$ 865	$ 3,057,045
Balance allocated to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	240,814	2,506,337	76,784	232,245	865	3,057,045
Ending balance	$ 240,814	$ 2,506,337	$ 76,784	$ 232,245	$ 865	$ 3,057,045
Loans receivable:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	14,648,780	157,611,126	3,734,641	20,825,901	69,686	196,890,134
Ending balance	$ 14,648,780	$ 157,611,126	$ 3,734,641	$ 20,825,901	$ 69,686	$ 196,890,134

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	2018					
	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
Beginning balance	$ 302,409	$ 1,301,244	$ 138,809	$ 110,517	$ 16,328	$ 1,869,307
Provision for loan losses	(66,182)	565,944	(61,539)	(21,245)	(16,978)	400,000
Amounts recovered	-	-	-	-	661	661
Amounts charged off	-	-	-	-	-	-
Ending balance	$ 236,227	$ 1,867,188	$ 77,270	$ 89,272	$ 11	$ 2,269,968
Balance allocated to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	236,227	1,867,188	77,270	89,272	11	2,269,968
Ending balance	$ 236,227	$ 1,867,188	$ 77,270	$ 89,272	$ 11	$ 2,269,968
Loans receivable:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	14,673,785	124,990,807	3,797,887	8,198,864	67,766	151,729,109
Ending balance	$ 14,673,785	$ 124,990,807	$ 3,797,887	$ 8,198,864	$ 67,766	$ 151,729,109

During 2019 and 2018, there were no troubled debt restructurings. There were no re-defaulted troubled debt restructurings that occurred for the years ended December 31, 2019 or 2018.

Note 5. Premises and Equipment

Premises and equipment are summarized at December 31 as follows:

	2019	2018
Leasehold improvements	$ 3,008,200	$ 2,860,224
Furniture, fixtures and equipment	2,034,206	2,087,682
Total Cost	5,042,406	4,947,906
Accumulated depreciation and amortization	(3,575,719)	(3,515,246)
Net premises and equipment	$ 1,466,687	$ 1,432,660

Note 6. Deposits

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

	2019
Years ending December 31:	
2020	$ 24,375,905
2021	11,872,448
2022	4,271,000
Total	$ 40,519,353

At December 31, 2019, there were no depositors exceeding 5 percent of the Company’s total deposits.

Note 7. Other Borrowings and Available Lines of Credit

The Company has a line of credit available from the FHLB of San Francisco. Borrowing capacity is determined based on collateral pledged, generally consisting of loans and securities, at the time of borrowing. Pursuant to collateral agreements with the FHLB of San Francisco, the arrangement is collateralized by qualifying securities and pledged loans with approximate market values of $30,413,415 and $12,933,725 as of December 31, 2019 and 2018, respectively. The borrowing capacity at December 31, 2019 and 2018 with the FHLB of San Francisco, as collateralized by qualifying securities and pledged loans, was approximately $26,206,192 and $11,186,698, respectively. There were no outstanding advances as of December 31, 2019 or 2018.

In addition, the Company has a borrowing agreement with the Federal Reserve Bank Discount Window. The total borrowing limit under this agreement is based on any amount that can be pledged as collateral to cover any such advances. As of December 31, 2019 and 2018, there were no borrowings under this agreement and there was no collateral pledged.

Note 8. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction. The Company identifies its federal tax return as its major tax jurisdiction. The periods subject to examination for the Company's federal tax return are 2016, 2017 and 2018. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to applicable guidance.

From time to time, the Company may be assessed interest or penalties by tax jurisdictions, although the Company has had no such assessments historically. The Company's policy is to include interest and penalties related to income taxes as a component of income tax expense.

The net cumulative effects of the primary temporary differences as of December 31 are shown in the following table:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 652,880	$ 489,000
Depreciation	152,253	193,885
Organization and startup costs	33,292	46,114
Other	524,995	240,105
Unrealized gains on securities available-for-sale	3,708	12,407
Total deferred tax assets	1,367,128	981,511
Deferred tax liabilities:		
Capitalized loan costs	(789,576)	(463,094)
Other	(106,017)	(124,756)
Total deferred tax liabilities	(895,593)	(587,850)
Net deferred tax assets	$ 471,535	$ 393,661

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant changes to U.S. tax law effective January 1, 2018, including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax.

The legislation reduced the nominal U.S. corporate tax rate from 34 percent to 21 percent.

The Company has no valuation allowance as of December 31, 2019. The following table presents the tax provision as of December 31:

	2019	2018
Current	$ 1,505,542	$ 363,292
Deferred	(86,573)	909,506
Total	$ 1,418,969	$ 1,272,798

For the years ended December 31, 2019 and 2018, the Company's effective tax rate was 21.03% and 19.94%, respectively, as compared to the statutory income tax rate of 21%. The effective rates for 2019 and 2018 differ from the expected statutory rate due to permanent differences and state taxes.

Note 9. Commitments and Contingencies

Financial instruments with off-balance-sheet risk: The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for these commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contractual amounts of the Company's exposure to off-balance-sheet risk as of December 31 is as follows:

	2019	2018
Commitments to extend credit, including unsecured commitments of $2,794,000 and $1,743,000 for 2019 and 2018, respectively	$ 28,548,200	$ 23,789,700
Standby letters of credit, cash secured	245,000	245,000
Total	$ 28,793,200	$ 24,034,700

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based upon management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; income-producing commercial properties; and land loans.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required as the Company deems necessary.

Lease commitments: The Company leases its facilities from related parties with terms of five to 15 years expiring through April 2025. Rent expense paid to related parties was approximately $703,000 and $596,000 for the years ended December 31, 2019 and 2018, respectively. Future minimum rental payments under the Company's operating leases as of December 31, 2019, are as follows:

	2019
Years ending December 31:	
2020	$ 902,633
2021	941,604
2022	870,510
2023	547,376
2024	326,839
Thereafter	85,926
Total	$ 3,674,888

Financial instruments with concentrations of credit risk: The Company's loan portfolio is concentrated in commercial real estate loans. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 80 percent. Commercial real estate loans accounted for approximately 80 percent and 82 percent of the total gross loans at December 31, 2019 and 2018, respectively. Residential loans, including multifamily, accounted for approximately 11 percent and 5% of the total gross loans at December 31, 2019 and 2018, respectively. No other loan classification exceeded 10 percent at December 31, 2019 and 2018. Unsecured loans accounted for less than 1 percent of total loans at December 31, 2019.

The Company makes commercial, commercial real estate, residential real estate and consumer loans to customers in southern Nevada ("Local Market") and to customers located throughout the United States through the Company's nationwide SBA and USDA Loan programs.

At December 31, 2019, the Company's loan portfolio included loans and loan commitments in thirty-two (32) states. The following table sets forth the dispersion of loan commitments (balances and undisbursed loan proceeds) with amounts and the percentage of the total commitments in the states with eight percent (8%) or more of the total loan commitments:

States	Amounts	Percentage
Nevada	$ 102,772,937	39.39%
North Carolina	31,794,194	12.19%
California	30,510,996	11.69%
Ohio	20,922,664	8.02%
Other States	74,911,772	28.71%
Totals	$ 260,912,563	100.00%

None of the Other States individually account for a percentage of the total exceeding 4.50%.

The Company's loans are expected to be repaid from cash flow or from proceeds from the sale of selected assets of the borrowers. Additionally, unsecured loans accounted for less than 1 percent of total loans at December 31, 2019 and 2018.

Legal contingencies: The Company is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the Company's financial statements. In the opinion of management, such

proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Executive agreements: The Company has entered into agreements with its key employees, which states that in the event the Company terminates the employment of these officers without cause, or upon change in control of the Company, the Company may be liable for the employees' salary for a period of time as outlined in the agreements.

Note 10. Merger

On December 31, 2018, the Company entered into a Stock Exchange Agreement and Plan (the Agreement) with BankCard Services, LLC (BCS). Under the terms of the agreement, ownership interests in BCS would be exchanged for shares of the Company and cash, and BCS would become a wholly owned subsidiary of the Company. Closing of the transaction was subject to various conditions, including approval by regulatory authorities, the Company's Board of Directors and stockholders, and BCS' members; a fairness opinion and valuation report for BCS; and various representations and warranties for both the Company and BCS. The Agreement was terminated by the mutual consent of the Company and BCS effective August 27, 2019.

In January 2020, the Company began a reevaluation of the merits of the possible merger transaction. The reevaluation is in an early stage and there is no revised Agreement in place as of March 20, 2020, the date the financial statements were available to be issued.

Note 11. Related-Party Transactions

In the course of ordinary business, the Company has granted loans to officers, directors and their affiliates ("related parties"). The following table presents a summary of the 2019 loan activity to related parties:

	2019
Beginning balances	$ 6,185,000
Less: loans to parties no longer classified as related parties as of December 31, 2019	61,000
Balances	6,124,000
2019 activity:	
Advances	2,166,000
Repayments	(1,936,000)
Ending balances	$ 6,354,000

Undisbursed loan commitments with related parties totaled approximately $4,636,000 and $1,241,000 at December 31, 2019 and 2018, respectively.

In April 2015, the Company entered into a sponsorship and program management with BankCard Services, LLC (BCS), a newly formed entity that is related by common ownership to the Company. Under this agreement, the Company will issue prepaid debit cards through its membership in the Discover Network, and BCS will serve as the program manager for the cards. In addition to card issuance, the Company will provide settlement accounts and receive a percentage of BCS's gross revenues as compensation for these services. Revenue recognized by the Company associated with this arrangement during the year ended December 31, 2019 and 2018, was not significant.

Deposits from related parties in the normal course of business totaled approximately $35,581,000 and $12,141,000 at December 31, 2019 and 2018, respectively.

Note 12. Regulatory Capital Requirements

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications 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 Company to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined).

As of December 31, 2019, the most recent notification from the FDIC categorized BG as well- capitalized as defined by the banking regulatory agencies. To be categorized as well-capitalized, BG must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity capital ratios as set forth in the table below. The actual capital amounts and ratios of BG are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Total capital (to risk-weighted assets)	$ 42,980,000	20.1%	$ 17,073,000	8.0%	$ 21,341,000	10.0%
Tier I capital (to risk-weighted assets)	40,298,000	18.9%	12,808,000	6.0%	17,077,000	8.0%
Tier I common equity capital to risk-weighted assets	40,298,000	18.9%	9,606,000	4.5%	13,875,000	6.5%
Tier I capital (to average assets)	40,298,000	12.1%	13,269,000	4.0%	16,586,000	5.0%
As of December 31, 2018:						
Total capital (to risk-weighted assets)	$ 34,505,000	20.9%	$ 13,189,000	8.0%	$ 16,486,000	10.0%
Tier I capital (to risk-weighted assets)	32,431,000	19.7%	9,893,000	6.0%	13,191,000	8.0%
Tier I common equity capital to risk-weighted assets	32,431,000	19.7%	7,420,000	4.5%	10,717,000	6.5%
Tier I capital (to average assets)	32,431,000	13.6%	9,539,000	4.0%	11,924,000	5.0%

In early July 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital requirements, add a new common equity Tier capital ratio, increase the minimum Tier 1 capital ratio requirement, and implement a new capital conservation buffer. The rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. The final rules took effect for community banks on January 1, 2015, subject to a transition period for certain parts of the rules.

On November 4, 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework, for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule is effective on January 1, 2020 and allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. Banks opting into the CBLR framework will not be required to calculate or report risk-based capital. The Company expects to adopt the CBLR standards with its Call Report filed with the federal banking agencies for the quarter ended March 31, 2020.

Additionally, State of Nevada banking regulations restrict distribution of the net assets of the Company because such regulations require the sum of the Company's stockholders' equity and allowance for loan losses to be at least 6 percent of the average of the Company's total daily deposit liabilities for the preceding 60 days. As a result of these regulations, approximately $17,889,403 of the Company's stockholders' equity was restricted at December 31, 2019.

Note 13. Fair Value Accounting

The Company uses a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain unobservable assumptions and projections in determining the fair value assigned to such assets.

Fair value on a recurring basis: The table below presents the balance of securities available-for-sale at December 31, 2019, which is measured at fair value on a recurring basis:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Securities available-for-sale, 2019:				
Residential mortgage-backed securities	$3,453,159	$ -	$3,453,159	$ -
Securities available-for-sale, 2018:				
Residential mortgage-backed securities	$3,927,906	$ -	$3,927,906	$ -

At December 31, 2019 and 2018, there were no security transfers between levels.

Fair value on a nonrecurring basis: Certain assets are measured at fair value on a nonrecurring 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). The most significant asset initially measured at fair value that is not measured at fair value on an ongoing basis is the loan servicing asset.

Note 14. Stock Option Plan

During 2008, the shareholders approved the 2007 Long-Term Stock Option Plan (Option Plan) that provides for a maximum of 252,000 shares of the Company's stock to be purchased under options. The options to purchase shares may be issued to employees, officers and directors as either incentive stock options or nonqualified stock options. The Option Plan requires that the exercise price be equal to the fair market value of the Company's common stock at the date of grant. Certain option awards provide for accelerated vesting if there is a change in control as described in the Option Plan Agreement.

In April 2014, the shareholders approved an increase of options to be granted from the initial limitation of 252,000 to a revised limitation of 700,000 as a result of the increase in the Company's shares of common stock issued and outstanding. In accordance with the Option Plan, option awards payable in common shares that are forfeited, cancelled, or otherwise terminates without payment being made will not be charged against the maximum share limitation and may again be made subject to an award pursuant to the limitation.

The following table presents the number of options that have been granted, exercised, cancelled or forfeited together with the number of options that are subject to an award as of December 31, 2019:

	Activity
Awards granted	720,450
Exercises	(19,975)
Cancellations/forfeitures	(45,700)
Awards outstanding	654,775

	Availability
Awards limitation	700,000
Cancellations/forfeitures	45,700
Awards granted	(720,450)
Awards available	25,250

Options are generally granted with a vesting term of five years and expire five years after the final vesting date.

The following provides activities of outstanding options as of December 31, 2019:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding, beginning of year	670,750	$ 1.57	
Granted	-	-	
Exercised	(15,975)	1.50	
Canceled/forfeited	-	-	
Outstanding, end of year	654,775	$ 1.58	5.3
Options exercisable, end of year	550,675	$ 1.55	5.3

The Company recognizes compensation expense resulting from the award of options by using the Black-Scholes option-pricing model to calculate the fair value of stock options. Compensation expense for the stock option awards is then recognized ratably over the vesting period of the award. Compensation recorded during the years ended December 31, 2019 and 2018 relating to stock options granted in previous years was approximately $45,000 for both years. As of December 31, 2019, there was approximately $35,000 of total unrecognized compensation cost associated with nonvested options granted under the Plan. The remaining cost is expected to be recognized over a weighted-average period of approximately 14 months.

Stock option exercises were 15,975 and 4,000, respectively, in 2019 and 2018. The intrinsic value of the options exercised was $43,452 and $6,000 in 2019 and 2018, respectively.

Note 15. Equity Incentive Plan

Effective March 22, 2016, the Company established the 2016 Equity Incentive Plan (the Equity Plan) for its directors, consultants and certain of its employees. The Equity Plan permits the grant and award of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, and other stock-based awards and stock-related awards.

The maximum total number of shares available for incentive awards under the Equity Plan was established at 250,000 shares of common stock, plus all shares subject to incentive awards that are canceled, surrendered, modified or exchanged for substitute incentive awards, or that expire or terminate prior to the exercise or vesting of the incentive awards in full, plus shares that are surrendered to the Company in connection with the exercise or vesting of incentive awards, whether previously owned or otherwise subject to such incentive awards. However, the number of shares that may be granted under the Equity Plan shall not exceed, on a cumulative basis, 15 percent of the aggregate shares of common stock issued and outstanding at any grant date. Unless earlier terminated by the Company, no incentive award shall be granted under the Equity Plan after March 22, 2026.

There were 50,000 shares and 99,640 shares of restricted stock granted to employees and directors under the Equity Plan during the years ended December 31, 2018 and 2017, respectively. No restricted shares were granted in 2019.

The following provides activity of outstanding restricted awards as of December 31:

	2019	2018	2017
Outstanding, beginning of year	127,480	99,640	-
Granted	-	50,000	99,640
Vested	(28,558)	(19,370)	-
Cancelled/forfeited	(3,502)	(2,790)	-
Outstanding, end of year	95,420	127,480	99,640

	Availability
Awards limitation	250,000
Cancellations/forfeitures	6,292
Awards outstanding	(149,640)
Awards available	106,652

The Company recognizes compensation expense resulting from the award of the restricted shares based on the fair value of the award on the measurement date which, for the Company, is the date of the award. The compensation is recognized ratably over the vesting period of the award. The grant date fair value was $3.25 per

share for a total of $162,500 for year ending December 31, 2018. The shares vest over a period of five years, beginning on the first anniversary following the award date.

Total compensation expense recorded during the years ended December 31, 2019 and 2018 were approximately $130,000 and $63,000, respectively. As of December 31, 2019, there was approximately $277,000 of total unrecognized compensation cost associated with nonvested share-based compensation. The remaining cost is expected to be recognized over a weighted average period of approximately 38 months.

Note 16. Employee Benefit Plans

401(k) plan: During 2007, the Company entered into a qualified 401(k) employee benefit plan ("EBP") for all eligible employees. Participants are able to defer up to 96 percent of their annual compensation in accordance with statutory limits. There is no Company match under the EBP. Effective first-quarter 2016, the Company elected to reinstitute its 401(k) matching program where the Company matches 50 percent of the first 6 percent of employee contributions. Additionally, the Company can make a discretionary contribution to the EBP on an annual basis. For the years ended December 31, 2019 and 2018, the Company contributed approximately $207,000 and $153,000 to the EBP, which are included in noninterest expense on the consolidated statements of income, respectively.

Effective January 1, 2017, the Company elected a Safe Harbor matching contribution wherein the Company matches 100 percent of the first 4 percent of employee contributions.

Deferred incentive compensation plan: On December 15, 2016, the Company adopted an unfunded nonqualified deferred incentive compensation plan (the Plan) primarily to provide supplemental retirement benefits and incentive compensation for selected employees. Eligible participants may elect to defer compensation in an amount not to exceed $200,000 in any Plan year. In addition, within 90 days following the end of each Plan year, the Company contributes to the Plan in the amounts determined according to the terms of each participant's agreement. Each participant shall vest in an amount of one-third of each contribution each Plan year. Each year, contributions and deferrals are to be distributed for each of the three immediately preceding years, plus related interest. For the years ended December 31, 2019 and 2018, the Company recorded approximately $773,000 and $466,000 of contributions and deferrals, respectively, and at December 31, 2019 and 2018, these same amounts were recorded as liabilities associated with this Plan.

Note 17. Common Stock Offering and Warrants

During 2014, the Company commenced a stock offering to existing shareholders that included the sale of up to a maximum of 1,520,000 units, with each unit comprising one share of common stock and a five-year warrant to acquire one-third of a share of common stock of the Company. Each unit was priced at $1.50 and the warrant exercise price was $1.50 per share. Under this offering, the Company sold 1,520,000 units, resulting in the issuance of 1,520,000 common shares, and received proceeds of approximately $2,263,000, net of issuance costs of approximately $17,000. Under this offering, warrants to purchase 506,655 common stock shares were issued during December 2014.

In March 2016, the Company commenced a stock offering to accredited investors that included the sale of up to a maximum of 1,000,000 shares of common stock. Each share was priced at $2.50. Under this offering, the Company issued 1,033,265 shares and received proceeds of approximately $2,579,000, net of issuance costs of approximately $22,000. There were no warrants issued associated with this stock offering.

There were 10,000 and 368,819 warrants exercised during the years ended December 31, 2019 and 2018, respectively, reflecting warrants issued in 2014 and earlier years. At December 31, 2018, there were 10,000 warrants outstanding with an exercise price of $1.50 per share. At December 31, 2019, there were no remaining warrants outstanding.

In September 2019, the Board of Directors of the Company authorized an Offering of up to 3,300,000 shares of the Company at a price of $6.15 per share, resulting in estimated proceeds of approximately $20,295,000 before expenses of the offering. The Offering closes on March 31, 2020. The Offering was in the form of a private placement, made to qualified investors, as that term applies in securities law. On December 6, 2019, the Company issued 453,751 shares in exchange for $2,654,718, net of expenses (Closing 1). On February 5, 2020, the Company issued an additional 2,502,185 shares in exchange for $14,532,641, net of expenses (Closing 2). In accordance with the terms of the Offering, there are 344,064 shares remaining that are authorized to be issued by March 31, 2020.