



Primary Bank

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018



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Independent Auditors' Report

To the Audit Committee of Primary Bank:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Primary Bank and subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Wolf & Company, P.C.

Boston, Massachusetts

February 25, 2020

Primary Bank

Consolidated Balance Sheets

December 31, 2019 and 2018

Assets		
	2019	2018
Cash and due from banks	\$ 1,480,415	\$ 1,008,628
Interest-bearing deposits	57,999,155	25,252,875
Total cash and cash equivalents	59,479,570	26,261,503
Securities held to maturity, at amortized cost	1,752,627	2,323,944
Federal Home Loan Bank stock, at cost	87,300	87,300
Loans, net	234,337,403	175,150,135
Premises and equipment, net	598,405	142,094
Operating lease right-of-use assets	1,176,371	-
Accrued interest receivable	582,541	437,051
Deferred tax asset	773,635	195,643
Other assets	398,573	268,969
	\$ 299,186,425	\$ 204,866,639
Liabilities and Stockholders' Equity		
Deposits	\$ 267,524,568	\$177,335,268
Operating lease liabilities	1,242,989	-
Accrued expenses and other liabilities	1,015,018	623,986
Total liabilities	269,782,575	177,959,254
Commitments and contingencies (Notes 5, 6 and 11)		
Stockholders' equity:		
Common stock, \$0.01 par value; 10,000,000 shares authorized; 3,046,536 shares issued at December 31, 2019 and 2018; 3,045,536 and 3,046,536 shares outstanding at December 31, 2019 and 2018, respectively	30,455	30,465
Additional paid-in capital	30,735,665	30,582,416
Retained deficit	(1,362,270)	(3,705,496)
Total stockholders' equity	29,403,850	26,907,385
	\$ 299,186,425	\$ 204,866,639

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

Primary Bank

Consolidated Statements of Operations

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Interest and dividend income:		
Interest and fees on loans	\$ 10,399,589	\$ 7,123,830
Interest on securities	44,981	48,945
Interest on short-term investments	794,026	606,325
Total interest income	<u>11,238,596</u>	<u>7,779,100</u>
Interest expense:		
Interest on deposits	<u>3,140,134</u>	<u>1,872,973</u>
Total interest expense	<u>3,140,134</u>	<u>1,872,973</u>
Net interest income	8,098,462	5,906,127
Provision for loan losses	747,851	643,576
Net interest income, after provision for loan losses	<u>7,350,611</u>	<u>5,262,551</u>
Other income	<u>185,162</u>	<u>88,278</u>
Operating expenses:		
Salaries and employee benefits	3,364,339	2,652,458
Occupancy and equipment	409,892	242,679
Data processing	544,365	468,433
Marketing	95,068	94,160
Professional	361,834	281,953
FDIC insurance	122,533	114,392
Other general and administrative	447,125	268,127
Total operating expenses	<u>5,345,156</u>	<u>4,122,202</u>
Income before income taxes	2,190,617	1,228,627
Income tax benefit	<u>(152,609)</u>	<u>(190,643)</u>
Net income	<u>\$ 2,343,226</u>	<u>\$ 1,419,270</u>
Earnings per share		
Basic earnings per share	\$0.77	\$0.47
Weighted-average shares outstanding	3,027,953	3,046,536
Diluted earnings per share	\$0.75	\$0.45
Weighted-average diluted shares outstanding	3,128,701	3,167,833

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

Primary Bank

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2019 and 2018

	<u>Shares of Common Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at December 31, 2017	3,046,536	\$ 30,465	\$ 30,419,350	\$ (5,124,766)	\$ 25,325,049
Net income	-	-	-	1,419,270	1,419,270
Stock-based compensation	-	-	163,066	-	163,066
Balance at December 31, 2018	3,046,536	30,465	30,582,416	(3,705,496)	26,907,385
Net income	-	-	-	2,343,226	2,343,226
Stock-based compensation	-	-	163,239	-	163,239
Common stock repurchased	(146,098)	(1,461)	(1,459,519)	-	(1,460,980)
Common stock reissued	143,598	1,436	1,434,544	-	1,435,980
Issuance of common stock upon exercise of warrants	1,500	15	14,985	-	15,000
Balance at December 31, 2019	<u>3,045,536</u>	<u>\$ 30,455</u>	<u>\$ 30,735,665</u>	<u>\$ (1,362,270)</u>	<u>\$ 29,403,850</u>

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

Primary Bank

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	\$ 2,343,226	\$ 1,419,270
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for loan losses	747,851	643,576
Amortization of net deferred loan costs	130,239	67,809
Share-based compensation expense	163,239	163,066
Net amortization of premiums on securities	12,540	15,448
Depreciation and amortization	101,718	52,020
Deferred income tax benefit	(577,992)	(195,643)
Net change in:		
Accrued interest receivable	(145,490)	(197,577)
Other, net	328,046	178,099
Net cash provided by operating activities	<u>3,103,377</u>	<u>2,146,068</u>
Cash flows from investing activities:		
Paydowns of securities held to maturity	558,777	657,904
Purchase of Federal Home Loan Bank stock	-	(44,900)
Loan originations, net of principal repayments	(60,065,358)	(61,127,419)
Additions to premises and equipment	<u>(558,029)</u>	<u>(1,426)</u>
Net cash used by investing activities	<u>(60,064,610)</u>	<u>(60,515,841)</u>
Cash flows from financing activities:		
Net increase in deposits	90,189,300	55,193,423
Proceeds from common stock warrant exercises	15,000	-
Common stock repurchased, net	<u>(25,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>90,179,300</u>	<u>55,193,423</u>
Net change in cash and cash equivalents	33,218,067	(3,176,350)
Cash and cash equivalents at beginning of period	<u>26,261,503</u>	<u>29,437,853</u>
Cash and cash equivalents at end of period	<u>\$ 59,479,570</u>	<u>\$ 26,261,503</u>
Supplementary information:		
Interest paid on deposit accounts	\$ 3,067,376	\$ 1,783,385
Income taxes paid	207,500	5,000
Right-of-use assets obtained in exchange for lease liabilities	1,359,879	-

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

Primary Bank

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and basis of presentation

Primary Bank (the “Bank”) is organized under the laws of the State of New Hampshire and commenced operations on July 28, 2015. Through a subscription offering, the Bank issued 3,046,536 shares of common stock at a price of \$10 per share.

Principles of consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Primary Holdings, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Business

The Bank provides a variety of financial services to small and medium-sized businesses, professionals, municipalities and not-for-profit organizations through its offices in Bedford and Manchester, New Hampshire. The Manchester office opened for business in January 2019. In February 2020, the Bank opened an office in Derry, New Hampshire. Its primary deposit products are savings, checking, money market and term certificate accounts, and its primary lending products are commercial business and commercial mortgage loans.

Significant group concentrations of credit risk

Most of the Bank’s lending activities are with customers located within New Hampshire. The Bank does not have any significant concentrations to any one industry or customer.

Earnings per share

Basic net income per share is computed by dividing the net income for the period by the weighted-average number of shares outstanding during the period. Basic and diluted net income per share are considered to be the same for periods in which a net loss is reported, as the inclusion of potential common shares such as warrants and options would be antidilutive. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock options and common stock warrants.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and cash equivalents

Cash and cash equivalents include cash, balances due from banks and interest-bearing deposits on an overnight basis. The Bank may from time to time have deposits in financial institutions which exceed the federally insured limits. The Bank has not experienced any losses in said amounts and does not believe it is exposed to any significant credit risk on this cash.

Securities held to maturity

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

The Bank evaluates securities for other-than-temporary impairment (“OTTI”), at least quarterly. If the fair value of a security is less than its amortized cost basis, OTTI is required to be recognized if: (1) the Bank intends to sell the security; (2) it is “more likely than not” that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. No OTTI has been recognized to date.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank (“FHLB”) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2019 and 2018, no impairment has been recognized.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans

The Bank's loan portfolio includes segments related to 1-4 and multi-family real estate, commercial owner and non-owner occupied real estate, construction, and commercial business loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination costs, net of certain direct origination fees, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses

The allowance for loan losses is an estimate of uncollectible amounts of the loan portfolio that is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and allocated components, as further described below.

General component

The general component of an allowance for loan losses is typically based on historical loss experience adjusted for qualitative factors stratified by the various loan segments. The Bank has no historical loss experience and has considered the allowance coverage ratios of national and local peer groups when assessing allowance adequacy. Prospectively, the Bank will consider relevant peer group statistics, as well as its own historical loss

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

General component (concluded)

experience. Consideration is also given to the following qualitative factors: volume and severity of past due, non-accrual and adversely classified loans; nature, volume and terms of loans; quality of the loan review system; effects of any concentrations of credit; lending policies and procedures; experience/ability/depth of lending management and staff; international, national, regional and local economic and business conditions and other external factors. There were no changes to the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2019.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

1-4 and multi-family real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. Loans in this segment are generally collateralized by non-owner occupied real estate. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial owner and non-owner occupied real estate – Loans in this segment are primarily income-producing properties. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, could have an effect on the credit quality in this segment. Management obtains rent rolls for non-owner occupied properties or financial information for owner-occupied properties annually to monitor the cash flows of these loans.

Construction loans – Loans in this segment primarily relate to speculative real estate development loans for which payment will be derived from sale of the properties. In addition, the Bank also grants construction loans for commercial properties that will be leased to related and/or unrelated commercial tenants. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial business loans – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, could have an effect on the credit quality in this segment.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (concluded)

Allocated component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings, 1-4 and multi-family real estate, commercial owner and non-owner occupied real estate, construction, and commercial business loans exceeding certain dollar amounts are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Premises and equipment

Leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets, or the original term of the lease, if shorter. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Furniture, fixtures and equipment	3-10
Leasehold improvements	Term of lease

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Bank determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities in our consolidated balance sheets.

ROU assets represent the Bank’s right to use an underlying asset for the lease term and lease liabilities represent the Bank’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Bank’s leases do not provide an implicit rate, the Bank used an incremental borrowing rate, which is generally the Federal Home Loan Bank classic advance rate, based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU assets also excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise that option. For operating leases, lease expense is recognized on a straight-line basis over the lease term.

The Bank has elected to adopt the lease guidance retrospectively at the beginning of 2019. The adoption did not result in any cumulative-effect adjustment to beginning retained earnings. The Bank has elected certain practical expedients upon adoption and therefore has not reassessed whether any expired or existing contracts contain leases, has not reassessed the lease classification for any expired or existing leases and has not reassessed initial direct costs for any existing leases. Additionally, the Bank has not elected the practical expedient to account for lease and non-lease components as one lease component option.

Transfers of financial assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset 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 Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

During the normal course of business, the Bank may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers of financial assets (concluded)

loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Marketing

Marketing expenses are charged to earnings when incurred.

Stock-based compensation plan

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Stock-based compensation is recognized over the period the employee is required to provide services for the award. Reductions in compensation expense associated with forfeited options are accounted for by recognizing forfeitures of awards as they occur. The Bank uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

Income taxes

Deferred tax assets and liabilities are reflected at currently enacted 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 accordingly through the provision for income taxes. A valuation allowance is established against deferred tax assets when, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. See Note 9.

Recent accounting pronouncements

Effective January 1, 2019, the Bank adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The amendments in this ASU require that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The Bank adopted this ASU on January 1, 2019, and recorded an increase in assets of \$1,359,879 and an increase in liabilities of \$1,408,127 on the consolidated balance sheet as a result of recognizing the right-of-use assets and lease liabilities.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent accounting pronouncements (concluded)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. This ASU, as amended, is effective for the Bank in fiscal years after December 15, 2022. The Bank is currently evaluating the impact this ASU will have on its consolidated financial statements.

2. RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2019 and 2018, this reserve balance amounted to \$563,000 and \$457,000, respectively.

3. SECURITIES HELD TO MATURITY

The amortized cost and fair value of securities held to maturity, with gross unrealized losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2019:</u>				
Debt securities:				
Government-sponsored residential mortgage-backed securities	\$ 1,752,627	\$ 481	\$ (10,153)	\$ 1,742,955
<u>December 31, 2018:</u>				
Debt securities:				
Government-sponsored residential mortgage-backed securities	\$ 2,323,944	\$ -	\$ (88,104)	\$ 2,235,840

At December 31, 2019, residential mortgage-backed securities with carrying values of \$682,456 were pledged as collateral to the FHLB against borrowing capacity.

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Notes to Consolidated Financial Statements (Continued)

SECURITIES HELD TO MATURITY (concluded)

Contractual maturities of mortgage-backed securities, which amortize monthly, at December 31, 2019 follow:

<u>Final Maturity</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
2023	\$ 228,828	\$ 229,309
2025 - 2030	1,331,962	1,322,518
2045	191,837	191,128
	<u>\$ 1,752,627</u>	<u>\$ 1,742,955</u>

At December 31, 2019, all of the Bank's securities that are in an unrealized loss position have been in a continuous loss position for over twelve months. All of these securities are guaranteed by the U.S. Government or an agency thereof. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. The decline in market value is attributable to changes in interest rates and not to credit quality. The Bank does not intend to sell the securities and it is more likely than not that the Bank will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity. Accordingly, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2019.

4. LOANS

A summary of the balances of loans follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
1-4 & multi-family real estate	\$ 43,945,631	\$ 33,322,109
Commercial non-owner occupied	55,005,881	49,873,189
Commercial owner occupied	51,601,229	30,855,262
Construction	29,237,340	21,047,162
Commercial business	57,006,242	41,791,172
Overdrafts	10,979	182,337
Total loans	<u>236,807,302</u>	<u>177,071,231</u>
Allowance for loan losses	(2,867,869)	(2,120,018)
Deferred loan costs, net	<u>397,970</u>	<u>198,922</u>
Loans, net	<u>\$ 234,337,403</u>	<u>\$ 175,150,135</u>

Primary Bank

Notes to Consolidated Financial Statements (Continued)

LOANS (continued)

The Bank has transferred portions of originated commercial real estate and construction loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included on the Bank's accompanying consolidated balance sheets. The Bank and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loans. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to the participating lenders and disburses required escrow funds to relevant parties. At December 31, 2019 and 2018, the Bank was servicing loans for participants aggregating \$20,833,675 and \$19,343,189, respectively.

Activity in the allowance for loan losses, by loan segment, for the years ended December 31, 2019 and 2018, follows:

	1-4 & Multi Family	Commercial Non-Owner Occupied	Commercial Owner Occupied	Construction	Commercial Business	Overdrafts	Total
Balance at December 31, 2017	\$ 219,361	\$ 433,944	\$ 191,285	\$ 289,599	\$ 342,253	\$ -	\$ 1,476,442
Provision for loan losses	115,557	161,038	181,815	22,647	162,519	-	643,576
Balance at December 31, 2018	334,918	594,982	373,100	312,246	504,772	-	2,120,018
Provision for loan losses	103,015	63,463	257,254	131,814	192,305	-	747,851
Balance at December 31, 2019	<u>\$ 437,933</u>	<u>\$ 658,445</u>	<u>\$ 630,354</u>	<u>\$ 444,060</u>	<u>\$ 697,077</u>	<u>\$ -</u>	<u>\$ 2,867,869</u>

At December 31, 2019:

Allowance for impaired loans	\$ -	\$ -	\$ -	\$ -	\$ 38,253	\$ -	\$ 38,253
Allowance for non-impaired loans	<u>437,933</u>	<u>658,445</u>	<u>630,354</u>	<u>444,060</u>	<u>658,824</u>	<u>-</u>	<u>2,829,616</u>
Total allowance for loan losses	<u>\$ 437,933</u>	<u>\$ 658,445</u>	<u>\$ 630,354</u>	<u>\$ 444,060</u>	<u>\$ 697,077</u>	<u>\$ -</u>	<u>\$ 2,867,869</u>
Impaired loans	\$ 543,503	\$ 674,711	\$ -	\$ 1,833,257	\$ 970,708	\$ -	\$ 4,022,179
Non-impaired loans	<u>43,402,128</u>	<u>54,331,170</u>	<u>51,601,229</u>	<u>27,404,083</u>	<u>56,035,534</u>	<u>10,979</u>	<u>232,785,123</u>
Total loans	<u>\$43,945,631</u>	<u>\$55,005,881</u>	<u>\$51,601,229</u>	<u>\$29,237,340</u>	<u>\$57,006,242</u>	<u>\$ 10,979</u>	<u>\$ 236,807,302</u>

There were no impaired loans at December 31, 2018.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

LOANS (continued)

There were no loans past due thirty days or more or non-accrual loans at December 31, 2018. Information regarding past due and non-accrual loans at December 31, 2019 is as follows:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	90 Days or More Past Due and Still Accruing	Non-accrual
1-4 & Multi-Family	\$ -	\$ -	\$ 543,503	\$ 543,503	\$ -	\$ 543,503
Commercial Non-Owner Occupied	-	-	674,711	674,711	-	674,711
Construction	-	-	1,833,257	1,833,257	-	1,833,257
Commercial Business	-	-	970,708	970,708	-	970,708
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,022,179</u>	<u>\$4,022,179</u>	<u>\$ -</u>	<u>\$4,022,179</u>

The following is information pertaining to impaired loans:

	December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans without a valuation allowance:			
1-4 & Multi-Family	\$ 543,503	\$ 550,898	\$ -
Commercial Non-Owner Occupied	674,711	685,695	-
Construction	1,833,257	1,833,257	-
Commercial Business	894,202	894,202	-
Total	<u>3,945,673</u>	<u>3,964,052</u>	<u>-</u>
Impaired loans with a valuation allowance:			
Commercial Business	76,506	76,506	38,253
Total	<u>76,506</u>	<u>76,506</u>	<u>38,253</u>
Total impaired loans	<u>\$4,022,179</u>	<u>\$ 4,040,558</u>	<u>\$ 38,253</u>
	2019		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
1-4 & Multi-Family	\$ 383,998	\$ -	\$ -
Commercial Non-Owner Occupied	445,764	-	-
Construction	508,596	-	-
Commercial Business	292,794	-	-
Total	<u>\$ 1,631,152</u>	<u>\$ -</u>	<u>\$ -</u>

Primary Bank

Notes to Consolidated Financial Statements (Continued)

LOANS (continued)

The Bank did not enter into any troubled debt restructuring agreements during the years ended December 31, 2019 and 2018.

Credit quality information

The Bank's risk rating system is designed to provide concise and accurate assessments of the quality of the commercial loan portfolio. The risk rating system provides a means of identifying those credits that warrant special handling and/or a greater degree of monitoring for deteriorating situations. The risk rating system is designed in a way that is consistent with the size and complexity of the Bank.

Loans rated 1-5 are considered "pass" rated with low to average risk.

Loans rated 6 are considered "other assets especially mentioned". Borrowers have higher risk profiles but not to the point of justifying a classification of substandard. Although the asset is currently protected, there are potential weaknesses which may, if not checked or corrected, weaken the asset, deteriorate the repayment prospects for the asset, or inadequately protect the Bank's credit position at some future date.

Loans rated 7 are considered "substandard". Although there may be the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected, a substandard rating does not necessarily imply a future loss. The bank need not be in an exit mode with the relationship in order for the substandard rating to apply.

Loans rated 8 are considered "doubtful". Weaknesses are so significant that the possibility of a principal loss is extremely high. The loan must be on non-accrual.

Loans rated 9 are considered a "loss". Weaknesses are so significant that the asset is considered uncollectible and of such little value that their continuance as bankable assets is not warranted. Its balance should be written off in the period in which they surface as uncollectable.

The following tables present the Bank's 1-4 and multi-family real estate and commercial loans by risk rating at December 31, 2019 and 2018.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

LOANS (concluded)

Credit quality information (concluded)

	December 31, 2019				
	1-4 & Multi- Family Real Estate	Commercial Non- Owner Occupied	Commercial Owner Occupied	Construction	Commercial Business
Loans rated 1-5	\$ 43,381,442	\$ 54,331,170	\$ 51,456,667	\$ 27,404,083	\$ 54,981,066
Loans rated 6	20,686	-	144,562	-	1,054,468
Loans rated 7	-	-	-	1,833,257	894,202
Loans rated 8	543,503	674,711	-	-	76,506
	<u>\$ 43,945,631</u>	<u>\$ 55,005,881</u>	<u>\$ 51,601,229</u>	<u>\$ 29,237,340</u>	<u>\$ 57,006,242</u>

	December 31, 2018				
	1-4 & Multi- Family Real Estate	Commercial Non- Owner Occupied	Commercial Owner Occupied	Construction	Commercial Business
Loans rated 1-5	\$ 31,900,395	\$ 49,070,595	\$ 30,855,262	\$ 21,047,162	\$ 41,791,172
Loans rated 6	174,949	-	-	-	-
Loans rated 7	1,246,765	802,594	-	-	-
	<u>\$ 33,322,109</u>	<u>\$ 49,873,189</u>	<u>\$ 30,855,262</u>	<u>\$ 21,047,162</u>	<u>\$ 41,791,172</u>

5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31,	
	2019	2018
Furniture, fixtures and equipment	\$ 563,273	\$ 277,051
Leasehold improvements	328,540	56,733
	<u>891,813</u>	<u>333,784</u>
Less accumulated depreciation and amortization	<u>(293,408)</u>	<u>(191,690)</u>
	<u>\$ 598,405</u>	<u>\$ 142,094</u>

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 amounted to \$101,718 and \$52,020, respectively.

Firm commitments relating to the construction of a new branch amount to \$250,000 at December 31, 2019.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

6. LEASES

The Bank has three operating leases for its operations center and branch locations. The leases have remaining lease terms of five years to six years with renewal options of two-year terms up to twenty years. None of the renewal options to extend have been included in the lease term as it was determined that it was not reasonably certain that the Bank will exercise the option. The Bank does not have any material short-term leases.

The components of lease expense were as follows:

	<u>2019</u>
Operating lease cost	\$ 249,330

Supplemental cash flow and other information related to leases is as follows:

	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 203,823
Weighted average remaining lease term (in years)	5.1
Weighted average discount rate	3.11%

Maturities of lease liabilities are as follows:

2020	\$ 253,570
2021	258,021
2022	262,605
2023	267,326
2024	209,941
Thereafter	<u>99,082</u>
Total lease payments	1,350,545
Less imputed interest	<u>(107,556)</u>
Total lease liability	<u>\$ 1,242,989</u>

In September 2019, the Bank entered into a lease agreement commencing in February 2020 for a building located in Derry, New Hampshire, for the purpose of branch expansion. Future minimum rent commitments for this lease are \$23,545 for each of the next five years. The future minimum rent commitments are not included in the consolidated balance sheet at December 31, 2019 as the commencement date of the lease is February 2020.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

7. DEPOSITS

A summary of deposit balances, by type, follows:

	December 31,	
	2019	2018
NOW and demand	\$ 89,381,596	\$ 44,085,620
Money market deposits	63,114,821	55,006,898
Regular savings and other	13,660,701	1,636,297
Total demand accounts	<u>166,157,118</u>	<u>100,728,815</u>
Term certificates less than \$250,000	84,639,520	60,695,371
Term certificates of \$250,000 or more	16,727,930	15,911,082
Total certificate accounts	<u>101,367,450</u>	<u>76,606,453</u>
Total deposits	<u><u>\$ 267,524,568</u></u>	<u><u>\$ 177,335,268</u></u>

A summary of certificate accounts by maturity follows:

	December 31,		Weighted Average Rate	
	2019	2018	2019	2018
Within 1 year	\$ 60,605,696	\$ 24,965,147	2.40%	2.07%
Over 1 year to 2 years	32,990,436	34,989,784	2.45	2.31
Over 2 years to 3 years	5,822,024	15,186,095	2.33	2.58
Over 3 years to 4 years	1,520,929	1,275,403	2.14	2.29
Over 4 years	428,365	190,024	2.40	2.46
	<u><u>\$ 101,367,450</u></u>	<u><u>\$ 76,606,453</u></u>	2.41%	2.29%

8. LINE OF CREDIT

The Bank has a \$2,000,000 unsecured available line of credit with a correspondent bank at an interest rate that adjusts daily. At December 31, 2019 and 2018, there were no amounts outstanding.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

9. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	<u>2019</u>	<u>2018</u>
Current tax provision:		
Federal	\$ 301,945	\$ -
State	123,438	5,000
	<u>425,383</u>	<u>5,000</u>
Deferred tax provision (benefit):		
Federal	158,965	262,673
State	63,149	131,754
	<u>222,114</u>	<u>394,427</u>
Change in valuation allowance	<u>(800,106)</u>	<u>(590,070)</u>
	<u>(577,992)</u>	<u>(195,643)</u>
	<u>\$ (152,609)</u>	<u>\$ (190,643)</u>

The reasons for the difference between the statutory federal income tax provision (benefit) and the actual tax provision (benefit) is summarized as follows:

	<u>2019</u>	<u>2018</u>
Statutory federal tax (21%)	\$ 460,030	\$ 258,012
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	147,403	108,036
Change in valuation reserve	(800,106)	(590,070)
Other, net	40,064	33,379
	<u>40,064</u>	<u>33,379</u>
Total income tax benefit	<u>\$ (152,609)</u>	<u>\$ (190,643)</u>

The effects of each item that give rise to deferred taxes are as follows:

	<u>2019</u>	<u>2018</u>
Organization and start-up costs	\$ 224,839	\$ 246,084
Net operating loss carryforward	-	376,458
Allowance for loan losses	762,302	561,575
Deferred rent expense	18,042	13,067
Depreciation and amortization	(24,840)	(32,630)
Deferred loan costs	(189,236)	(143,904)
Other, net	<u>(17,472)</u>	<u>(24,901)</u>
	<u>773,635</u>	<u>995,749</u>
Valuation allowance	<u>-</u>	<u>(800,106)</u>
Net deferred tax asset	<u>\$ 773,635</u>	<u>\$ 195,643</u>

Primary Bank

Notes to Consolidated Financial Statements (Continued)

INCOME TAXES (concluded)

During 2019, the Bank utilized the remaining net operating loss carryforward.

Because of changes in assumptions regarding the realizability of the deferred tax asset, \$590,070 of the valuation allowance was reversed in the year ended December 31, 2018, and the remaining \$800,106 was reversed in the year ended December 31, 2019.

At December 31, 2019 and 2018, the Bank had no uncertain tax positions. The Bank accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The Bank has no interest or penalties recorded for the years ended December 31, 2019 and 2018.

The Bank's income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2019, 2018, 2017 and 2016. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2016 are open.

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ("FDIC"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Federal banking regulations for community banking institutions include minimum capital ratios as set forth in the following table. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. At December 31, 2019 and 2018, the Bank exceeded the required capital conservation buffer of 2.5% of total risk-based assets.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2019, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The Bank's actual capital amounts and ratios as of December 31, 2019 and 2018 are also presented in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
<u>December 31, 2019:</u>						
Total capital						
(to risk weighted assets)	\$ 32,272	12.7%	\$ 20,283	8.0%	\$ 25,354	10.0%
Common equity Tier 1 capital						
(to risk weighted assets)	29,404	11.6	11,409	4.5	16,480	6.5
Tier 1 capital						
(to risk weighted assets)	29,404	11.6	15,212	6.0	20,283	8.0
Tier 1 leverage ratio						
(to average assets)	29,404	10.6	11,075	4	13,844	5
<u>December 31, 2018:</u>						
Total capital						
(to risk weighted assets)	\$ 29,027	15.5%	\$ 14,969	8.0%	\$ 18,711	10.0%
Common equity Tier 1 capital						
(to risk weighted assets)	26,907	14.4	8,420	4.5	12,162	6.5
Tier 1 capital						
(to risk weighted assets)	26,907	14.4	11,227	6.0	14,969	8.0
Tier 1 leverage ratio						
(to average assets)	26,907	12.8	8,435	4.0	10,544	5.0

Primary Bank

Notes to Consolidated Financial Statements (Continued)

11. COMMITMENTS AND CONTINGENCIES

Loan commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and advance funds on lines-of-credit and construction loans. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets.

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

At December 31, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2019</u>	<u>2018</u>
Commitments to grant loans	\$ 9,458,000	\$ 17,368,000
Unadvanced funds on lines-of-credit	24,508,944	14,977,082
Unadvanced funds on construction loans	18,775,996	18,700,463
Unadvanced funds on real estate loans	2,022,666	1,908,813

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. The commitments for lines-of-credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis and the commitments are collateralized by real estate or other business assets.

Executive employment agreements and change of control

The Bank has entered into employment agreements with certain executives that provide for specified annual compensation and certain other benefits, as defined in the agreements, for original terms of one to two years. Thereafter, the agreements automatically extend for an additional one-year term unless the Board of Directors or the executive has given the other party notice within a specified number of days prior to the anniversary of the agreement.

Such employment may be terminated for cause, as defined, without incurring any continuing obligation. One agreement also provides for a specified lump sum cash payment to the executive upon a change in control of the Bank (as defined in the agreement). If a change of control occurs after the executive has retired in good standing, the executive will be entitled to a reduced lump sum cash payment.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

12. RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. The Board of Directors of the Bank may declare dividends from the Bank's net earnings remaining after deducting all losses and expenses from the two most recent fiscal years. The Board of Directors may also declare dividends from its cumulative retained earnings from the previous fiscal years, provided that it remains well capitalized after the declaration of the dividend under the regulations of the Federal Deposit Insurance Corporation. No dividends have been declared as of December 31, 2019 and 2018.

13. RELATED PARTIES

In the ordinary course of business, the Bank has granted loans to directors and their affiliates amounting to \$21,502,457 and \$16,261,937 at December 31, 2019 and 2018, respectively. Principal distributions on related party loans amounted to \$6,424,400 and \$6,324,000 during the year ended December 31, 2019 and 2018, respectively. Repayment of principal amounted to \$1,183,880 and \$6,378,376 during the year ended December 31, 2019 and 2018, respectively. Unadvanced funds on related party lines of credit amounted to \$2,782,457 and \$2,079,015 at December 31, 2019 and 2018, respectively. Additionally, deposits amounting to \$31,939,322 and \$26,904,206 at December 31, 2019 and 2018, respectively, are held at the Bank by senior management, directors and their affiliates.

All of the Bank's operating leases are on premises that are owned by directors of the Bank. The Bank has also entered into an operating lease pertaining to the new branch located in Derry, New Hampshire that is owned by one of the Bank's directors. The lease has an original term of five years with options to renew. Rent does not commence until February 2020, and will be \$23,545 per year. (See Note 6).

14. STOCK PLAN

Stock Incentive Plan

The Bank has adopted the 2015 Stock Incentive Plan (the "Stock Plan"), whereby 435,157 shares of the Bank's common stock have been reserved for issuance. Under the Stock Plan, the Bank may grant incentive stock options, non-qualified stock options and restricted stock awards to its employees, officers, directors and consultants. The exercise price for each option will be established at the discretion of the Bank's Board of Directors (the "Board"), but may not be less than the greater of \$10.00 per share, or the fair market value of the stock on the grant date. The term of each option will be fixed by the Board and may not exceed ten years from the date of grant. Options and restricted stock awards will generally vest over four years unless otherwise determined by the Board. Vesting may be accelerated upon a change in control, as defined in the Stock Plan. The following table shows the status of options available under the Stock Plan.

Primary Bank

Notes to Consolidated Financial Statements (Continued)

STOCK PLAN (continued)

Stock Incentive Plan (continued)

Stock Incentive Plan	Options Reserved	Options Outstanding	Options Committed	Available Options
As of December 31, 2018	435,157	155,600	-	279,557
As of December 31, 2019	435,157	187,650	-	247,507
As of January 21, 2020	435,157	216,050	-	219,107

Stock option activity is as follows:

	2019	
	Shares	Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	155,600	\$ 10.00
Granted	33,650	10.00
Forfeited	(1,600)	10.00
Outstanding at end of year	187,650	\$ 10.00
Options exercisable at end of year	141,588	\$ 10.00

The weighted average remaining contractual life as of December 31, 2019 on options outstanding and options exercisable is 8.0 years and 8.2 years, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted-average inputs. The expected volatility (20.59%) is based on historical volatility of the ABA Community Bank Fund Index. The risk-free interest rate (2.42%) for periods consistent with the expected term (years) of the awards is based on the U.S. Treasury yield curve in effect at the time of the grant. The average expected life was estimated using the simplified method to determine the expected life based on the vesting period and contractual terms, since the Bank does not have the necessary historical exercise data to determine an expected life for stock options. The dividend yield assumption (0%) is based on the expectation of dividend payouts.

Primary Bank

Notes to Consolidated Financial Statements (Concluded)

STOCK PLAN (concluded)

Stock Incentive Plan (concluded)

The weighted-average grant-date fair value of options granted during the year ended December 31, 2019 and 2018 was \$2.61 and \$2.62, respectively. For the year ended December 31, 2019 and 2018, share-based compensation expense applicable to the plan amounted to \$163,239 and \$163,066, respectively. As of December 31, 2019, unrecognized share-based compensation expense related to non-vested options amounted to \$126,567. This amount is expected to be recognized over a weighted average period of 0.62 years. Given the limited trading of the Bank's common stock, the intrinsic value of options outstanding is not readily determinable.

Board of Directors' Stock Compensation

Effective January 1, 2019, under the terms of the 2019 Director Stock Compensation Plan (the "Director Stock Plan"), the Board of Directors approved compensation to each director of the Bank equivalent to \$100 per Board or Committee meeting attended, paid in the form of stock grants. These stock grants are accumulated during a calendar year and issued annually in accordance with the Director Stock Plan. For the year ended December 31, 2019, the equivalent of \$34,800 was collectively earned by the Bank's Directors and will be issued in the form of common stock in 2020.

Common Stock Warrant Plan

The Bank adopted the Common Stock Warrant Plan (the "Warrant Plan"), whereby warrants for 280,000 shares were granted to original investors in the Bank's predecessor entity while in the organization phase, and that purchased common stock in the Bank's initial stock offering. The warrants allow holders, for a period of ten years after the effective date (November 12, 2015) of the warrants, to purchase Bank common stock for \$10 per share. Warrants do not entitle holders to voting rights or dividends. During the year ended December 31, 2019, 1,500 warrants were exercised at \$10 per share for net proceeds of \$15,000. There were no warrants exercised during 2018.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 25, 2020, which is the date the consolidated financial statements were available to be issued. As noted in Note 14, on January 21, 2020, the Bank granted stock options. Additionally, on January 27, 2020, the Bank issued an Offering Circular ("Offering") to sell up to 1,333,334 shares of the Bank's common stock, par value \$0.01 per share at the price of \$15.00 per share. The Bank will not close the Offering until the Bank has received the minimum number of subscriptions for the purchase of 1,000,000 shares and until the Bank receives subscription payments totaling \$15,000,000. The expiration date of the Offering is December 31, 2020. There were no other subsequent events that require adjustment to or disclosure in the consolidated financial statements.