



## Primary Bank

### Consolidated Financial Statements

Years Ended December 31, 2017 and 2016



## Table of Contents

Independent Auditors' Report	1-2
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-23



## 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, 2017 and 2016, 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, 2017 and 2016, 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 27, 2018

# Primary Bank

## Consolidated Balance Sheets

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and due from banks	\$ 1,937,853	\$ 1,671,987
Interest-bearing deposits	27,500,000	18,665,000
Total cash and cash equivalents	<u>29,437,853</u>	<u>20,336,987</u>
Securities held to maturity, at amortized cost	2,997,296	3,869,058
Federal Home Loan Bank stock, at cost	42,400	18,300
Loans, net	114,734,101	65,720,593
Premises and equipment, net	192,688	249,575
Accrued interest receivable	239,474	130,630
Other assets	196,833	210,939
	<u>\$ 147,840,645</u>	<u>\$ 90,536,082</u>
Liabilities and Stockholders' Equity		
Deposits	\$122,141,845	\$ 64,386,079
Accrued expenses and other liabilities	373,751	196,505
Total liabilities	<u>122,515,596</u>	<u>64,582,584</u>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.01 par value; 4,000,000 shares authorized; 3,046,536 shares issued and outstanding	30,465	30,465
Additional paid-in capital	30,419,350	30,382,108
Retained deficit	(5,124,766)	(4,459,075)
Total stockholders' equity	<u>25,325,049</u>	<u>25,953,498</u>
	<u>\$ 147,840,645</u>	<u>\$ 90,536,082</u>

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

# Primary Bank

## Consolidated Statements of Operations

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Interest and dividend income:		
Interest and fees on loans	\$ 3,755,712	\$ 1,464,021
Interest on securities	55,549	69,034
Interest on short-term investments	329,986	84,141
Total interest income	<u>4,141,247</u>	<u>1,617,196</u>
Interest expense:		
Interest on deposits	899,482	181,224
Interest on borrowings	-	18
Total interest expense	<u>899,482</u>	<u>181,242</u>
Net interest income	3,241,765	1,435,954
Provision for loan losses	623,572	752,997
Net interest income, after provision for loan losses	<u>2,618,193</u>	<u>682,957</u>
Other income	<u>57,769</u>	<u>25,727</u>
Operating expenses:		
Salaries and employee benefits	2,047,237	1,767,653
Occupancy and equipment	276,074	274,871
Data processing	410,429	353,125
Marketing	114,364	55,362
Professional	197,868	194,874
FDIC insurance	66,579	26,716
Other general and administrative	229,102	171,876
Total operating expenses	<u>3,341,653</u>	<u>2,844,477</u>
Net loss	<u>\$ (665,691)</u>	<u>\$ (2,135,793)</u>
Net loss per share	<u>(\$0.22)</u>	<u>(\$0.70)</u>
Weighted-average shares outstanding	3,046,536	3,046,536

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, 2017 and 2016

	<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, 2015	3,046,536	\$ 30,465	\$ 30,382,108	\$ (2,323,282)	\$ 28,089,291
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,135,793)</u>	<u>(2,135,793)</u>
Balance at December 31, 2016	3,046,536	30,465	30,382,108	(4,459,075)	25,953,498
Net loss	-	-	-	(665,691)	(665,691)
Stock-based compensation	<u>-</u>	<u>-</u>	<u>37,242</u>	<u>-</u>	<u>37,242</u>
Balance at December 31, 2017	<u>3,046,536</u>	<u>\$ 30,465</u>	<u>\$ 30,419,350</u>	<u>\$ (5,124,766)</u>	<u>\$ 25,325,049</u>

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

# Primary Bank

## Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net loss	\$ (665,691)	\$ (2,135,793)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for loan losses	623,572	752,997
Amortization of net deferred loan costs	52,322	20,602
Share-based compensation expense	37,242	-
Net amortization of premiums on securities	20,575	26,941
Depreciation and amortization	59,139	57,616
Net change in:		
Accrued interest receivable	(108,844)	(109,050)
Other, net	191,352	45,514
Net cash provided (used) by operating activities	<u>209,667</u>	<u>(1,341,173)</u>
Cash flows from investing activities:		
Paydowns of securities held to maturity	851,187	1,057,497
Purchase of Federal Home Loan Bank stock	(24,100)	(18,300)
Loan originations, net of principal repayments	(49,689,402)	(58,910,942)
Additions to premises and equipment	(2,252)	(16,305)
Net cash used by investing activities	<u>(48,864,567)</u>	<u>(57,888,050)</u>
Cash flows from financing activities:		
Net increase in deposits	<u>57,755,766</u>	<u>56,100,473</u>
Net cash provided by financing activities	<u>57,755,766</u>	<u>56,100,473</u>
Net change in cash and cash equivalents	9,100,866	(3,128,750)
Cash and cash equivalents at beginning of period	<u>20,336,987</u>	<u>23,465,737</u>
Cash and cash equivalents at end of period	<u>\$ 29,437,853</u>	<u>\$ 20,336,987</u>
Supplementary information:		
Interest paid on deposit accounts	\$ 846,481	\$ 159,910

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

# Primary Bank

Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

## 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 office in Bedford, 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.

### *Net loss per share*

Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares outstanding during the period. Basic and diluted net loss 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.

### *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

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Use of estimates (concluded)***

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. At December 31, 2017 and 2016, no balances due from banks exceeded federally insured limits.

#### ***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.

#### ***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.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *Loans (concluded)*

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. At December 31, 2017 and 2016, no loans were maintained on a non-accrual basis.

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 a general component, 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. As a de novo institution, 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 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.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *Allowance for loan losses (concluded)*

##### *General component (concluded)*

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.

#### *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	3-7
Leasehold improvements	Term of lease

# Primary Bank

Notes to Consolidated Financial Statements (Continued)

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***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 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. Accordingly, changes resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017 have been recognized in the consolidated financial statements as of and for the year ended December 31, 2017. 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. To date, the Bank's net deferred tax asset has been fully reserved for and the valuation allowance will be re-assessed when the Bank sustains a certain level of profitability. See Note 7.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

#### ***Recent accounting pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create *Topic 606, Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public business entities, this ASU is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. Management does not believe there will be a material impact to the consolidated financial statements as a result of adopting this ASU.

In February 2016, the FASB issued 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. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Management does not believe there will be a material impact to the consolidated financial statements as a result of adopting this ASU.

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. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Bank is currently evaluating the impact this ASU will have on its consolidated financial statements.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### 2. SECURITIES HELD TO MATURITY

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

	Amortized Cost	Gross Unrealized Losses	Fair Value
<b><u>December 31, 2017:</u></b>			
Debt securities:			
Government-sponsored residential mortgage-backed securities	\$ 2,997,296	\$ (63,078)	\$ 2,934,218
<b><u>December 31, 2016:</u></b>			
Debt securities:			
Government-sponsored residential mortgage-backed securities	\$ 3,869,058	\$ (76,786)	\$ 3,792,272

At December 31, 2017, residential mortgage-backed securities with carrying values of \$1,136,412 were pledged as collateral to the FHLBB against borrowing capacity.

Contractual maturities of mortgage-backed securities, which amortize monthly, at December 31, 2017 follow:

Final Maturity	Amortized Cost	Fair Value
2023	\$ 516,073	\$ 504,988
2025 - 2030	2,051,483	2,003,470
2045	429,740	425,760
	<u>\$ 2,997,296</u>	<u>\$ 2,934,218</u>

At December 31, 2017, all of the Bank's securities 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, 2017.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### 3. LOANS

A summary of the balances of loans follows:

	December 31,	
	2017	2016
1-4 & multi-family real estate	\$ 21,936,092	\$ 8,227,297
Commercial non-owner occupied	34,715,528	31,410,933
Commercial owner occupied	15,302,819	9,806,409
Construction	19,306,576	7,204,537
Commercial business	24,892,605	9,845,827
Consumer	4,913	2,255
Total loans	<u>116,158,533</u>	<u>66,497,258</u>
Allowance for loan losses	(1,476,442)	(852,870)
Deferred loan costs, net	<u>52,010</u>	<u>76,205</u>
Loans, net	<u><u>\$114,734,101</u></u>	<u><u>\$ 65,720,593</u></u>

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, 2017 and 2016, the Bank was servicing loans for participants aggregating \$10,447,119 and \$5,363,537, respectively.

Activity in the allowance for loan losses, by loan segment, for the years ended December 31, 2017 and 2016, follows:

	1-4 & Multi Family	Commercial Non-Owner Occupied	Commercial Owner Occupied	Construction	Commercial Business	Consumer	Total
Balance at December 31, 2015	\$ -	\$ 76,297	\$ 2,696	\$ 5,060	\$ 15,507	\$ 313	\$ 99,873
Provision (credit) for loan losses	<u>82,273</u>	<u>316,340</u>	<u>119,884</u>	<u>103,008</u>	<u>131,805</u>	<u>(313)</u>	<u>752,997</u>
Balance at December 31, 2016	82,273	392,637	122,580	108,068	147,312	-	852,870
Provision for loan losses	<u>137,088</u>	<u>41,307</u>	<u>68,705</u>	<u>181,531</u>	<u>194,941</u>	<u>-</u>	<u>623,572</u>
Balance at December 31, 2017	<u><u>\$ 219,361</u></u>	<u><u>\$ 433,944</u></u>	<u><u>\$ 191,285</u></u>	<u><u>\$ 289,599</u></u>	<u><u>\$ 342,253</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,476,442</u></u>

There are no past due, impaired or non-accrual loans at December 31, 2017 and 2016.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### LOANS (concluded)

For all commercial loans, the Bank utilizes a risk rating system which includes ratings for pass, special mention, substandard, doubtful and loss. All loans are pass-rated at December 31, 2017 and 2016.

### 4. PREMISES AND EQUIPMENT

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

	December 31,	
	2017	2016
Furniture, fixtures and equipment	\$ 275,625	\$ 273,373
Leasehold improvements	56,733	56,733
	<u>332,358</u>	<u>330,106</u>
Less accumulated depreciation and amortization	(139,670)	(80,531)
	<u>\$ 192,688</u>	<u>\$ 249,575</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 amounted to \$59,139 and \$57,616, respectively.

### 5. DEPOSITS

A summary of deposit balances, by type, follows:

	December 31,	
	2017	2016
NOW and demand	\$ 26,518,193	\$ 22,118,648
Money market deposits	44,000,280	17,262,946
Regular savings and other	527,440	116,583
Total non-certificate accounts	<u>71,045,913</u>	<u>39,498,177</u>
Term certificates less than \$250,000	40,848,179	18,465,926
Term certificates of \$250,000 or more	10,247,753	6,421,976
Total certificate accounts	<u>51,095,932</u>	<u>24,887,902</u>
Total deposits	<u>\$ 122,141,845</u>	<u>\$ 64,386,079</u>

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### DEPOSITS (concluded)

A summary of certificate accounts by maturity follows:

	December 31,		Weighted Average Rate	
	2017	2016	2017	2016
Within 1 year	\$ 11,447,240	\$ 1,722,534	1.38%	0.70%
Over 1 year to 2 years	6,546,422	10,101,432	1.72	1.42
Over 2 years to 3 years	26,033,478	3,077,156	1.91	1.51
Over 3 years to 4 years	5,811,382	6,026,545	2.04	2.21
Over 4 years	1,257,410	3,960,235	2.29	1.96
	<u>\$ 51,095,932</u>	<u>\$ 24,887,902</u>	1.79%	1.66%

### 6. 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, 2017 and 2016, there were no amounts outstanding.

### 7. INCOME TAXES

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

	2017	2016
Current tax provision:		
Federal	\$ -	\$ -
State	-	-
	<u>-</u>	<u>-</u>
Deferred tax benefit:		
Federal	187,383	667,208
State	49,229	175,289
	<u>236,612</u>	<u>842,497</u>
Change in valuation allowance	<u>(236,612)</u>	<u>(842,497)</u>
	<u>-</u>	<u>-</u>
Federal rate change - deferred tax asset	(603,768)	-
Federal rate change - valuation allowance	<u>603,768</u>	<u>-</u>
	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### INCOME TAXES (concluded)

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

	<u>2017</u>	<u>2016</u>
Organization and start-up costs	\$ 267,319	\$ 413,903
Net operating loss carryforward	879,026	1,078,468
Allowance for loan losses	387,404	334,014
Deferred rent expense	10,674	9,999
Depreciation and amortization	(40,030)	(57,902)
Other, net	(25,827)	(24,686)
Deferred loan costs	(94,072)	-
Charitable contribution carryover	5,682	3,536
	<u>1,390,176</u>	<u>1,757,332</u>
Valuation allowance	<u>(1,390,176)</u>	<u>(1,757,332)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Bank's net operating loss carryforward at December 31, 2017 amounts to \$3,199,016, of which \$1,293,506 expires on December 31, 2035, \$1,755,626 expires on December 31, 2036 and \$149,884 expires on December 31, 2037. As there is insufficient evidence to conclude that the Bank will have future taxable income in an amount sufficient to realize its deferred tax assets, no deferred tax benefits have been recorded.

At December 31, 2017 and 2016, 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, 2017 and 2016.

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, 2017, 2016 and 2015. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2015 are open.

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the "Act"). The Act includes a number of changes in existing tax law impacting businesses including, among other things, a permanent reduction in the corporate income tax rate from 34% to 21%, effective on January 1, 2018. As a result of this rate reduction, the Bank revalued its net deferred tax asset as of December 22, 2017 resulting in a reduction in the value of the net deferred tax asset of \$603,768, which was recorded through a deferred income tax provision and the valuation allowance was reduced accordingly.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### 8. 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. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets are being phased in over several years. The required minimum conservation buffer is 1.25% as of December 31, 2017 and increases to 1.875% on January 1, 2018 and 2.50% on January 1, 2019. Management believes that the Bank’s capital levels will remain characterized as “well-capitalized” throughout the phase-in periods.

As of December 31, 2017, 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, 2017 and 2016 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, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

	Actual		Capital Requirement		Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
<b><u>December 31, 2017:</u></b>						
Total capital (to risk weighted assets)	\$ 26,801	20.3%	\$ 10,570	8.0%	\$ 13,212	10.0%
Common equity Tier 1 capital (to risk weighted assets)	25,325	19.2	5,946	4.5	8,588	6.5
Tier 1 capital (to risk weighted assets)	25,325	19.2	7,927	6.0	10,570	8.0
Tier 1 leverage ratio (to average assets)	25,325	17.0	11,923	8.0*	11,923	8.0*

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2016:</b>						
Total capital						
(to risk weighted assets)	\$ 26,806	35.5%	\$ 6,036	8.0%	\$ 7,544	10.0%
Common equity Tier 1 capital						
(to risk weighted assets)	25,953	34.4	3,395	4.5	4,904	6.5
Tier 1 capital						
(to risk weighted assets)	25,953	34.4	4,527	6.0	6,036	8.0
Tier 1 leverage ratio						
(to average assets)	25,953	31.9	6,499	8.0*	6,499	8.0*

\* Although the minimum Tier 1 leverage ratio is generally 4%, pursuant to the Bank's de novo status, the Bank is subject to an 8% minimum Tier 1 leverage ratio. This requirement will be in effect for thirty-six months from the Bank's commencement of operations, which was on July 28, 2015.

## 9. 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.

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### COMMITMENTS AND CONTINGENCIES (continued)

#### *Loan commitments (concluded)*

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2017</u>	<u>2016</u>
Commitments to grant loans	\$ 11,185,000	\$ 14,331,000
Unadvanced funds on lines-of-credit	7,061,765	4,470,981
Unadvanced funds on construction loans	18,021,514	4,958,951
Unadvanced funds on real estate loans	550,000	1,663,654

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.

#### *Operating lease commitments*

Pursuant to the terms of a noncancelable, ten-year lease agreement in effect at December 31, 2017 pertaining to office premises, future minimum rent commitments and base common area maintenance ("CAM") expenses are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 170,228
2019	174,423
2020	178,744
2021	183,195
2022	187,779
Thereafter	<u>506,676</u>
	<u>\$ 1,401,045</u>

Additional CAM expenses that exceed the base amount are required to be paid on an annual basis. The lease contains options to extend for two additional ten-year terms. The cost of such extensions is not included above. Total rent expense for the years ended December 31, 2017 and 2016 amounted to \$179,631 and \$177,049, respectively. (See Note 11).

# Primary Bank

Notes to Consolidated Financial Statements (Continued)

## **COMMITMENTS AND CONTINGENCIES (concluded)**

### ***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.

## **10. 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, 2017 and 2016.

## **11. RELATED PARTIES**

In the ordinary course of business, the Bank has granted loans to directors and their affiliates amounting to \$16,316,313 and \$11,610,146 at December 31, 2017 and 2016, respectively. Unadvanced funds on related party lines of credit amounted to \$1,535,040 and \$1,301,664 at December 31, 2017 and 2016, respectively. Additionally, deposits amounting to \$18,722,058 and \$15,956,584 at December 31, 2017 and 2016, respectively, are held at the Bank by directors and their affiliates.

The Bank has entered into an operating lease pertaining to its office premises with a real estate trust, in which four of the Bank's directors have an aggregate ownership interest of 43%. The lease has an original term of ten years with options to renew. Rental expense for the years ended December 31, 2017 and 2016 related to this lease amounted to \$179,631 and \$177,049, respectively. (See Note 9.)

# Primary Bank

## Notes to Consolidated Financial Statements (Continued)

### 12. 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 and directors. 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.

Stock Incentive Plan	Options Reserved	Options Outstanding	Options Committed	Available Options
As of December 31, 2016	435,157	-	112,850	322,307
As of December 31, 2017	435,157	49,000	92,850	293,307
As of January 26, 2018	435,157	117,250	42,850	275,057

Stock option activity is as follows:

	2017	
	Shares	Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	-	\$ -
Granted	54,800	10.00
Forfeited	(5,800)	10.00
Outstanding at end of year	49,000	\$ 10.00
Options exercisable at end of year	13,667	\$ 10.00

The weighted average remaining contractual life as of December 31, 2017 on options outstanding and options exercisable is 9.3 years and 9.1 years, respectively.

# Primary Bank

## Notes to Consolidated Financial Statements (Concluded)

### **STOCK PLAN (concluded)**

#### *Stock Incentive Plan (concluded)*

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 (21.25%) is based on historical volatility of the ABA Community Bank Fund Index. The risk-free interest rate (2.05%) for periods consistent with the expected term (6.05 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 (0.00%) is based on the expectation of dividend payouts.

The weighted-average grant-date fair value of options granted during the year ended December 31, 2017 was \$2.58. For the year ended December 31, 2017, share-based compensation expense applicable to the plan amounted to \$37,242. As of December 31, 2017, unrecognized share-based compensation expense related to non-vested options amounted to \$88,966. This amount is expected to be recognized over a weighted average period of 2.44 years. Given the limited trading of the Bank's common stock, the intrinsic value of options outstanding is not readily determinable.

#### *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. No warrants have been exercised to date.

### **13. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 27, 2018, which is the date the consolidated financial statements were available to be issued. Except for stock options granted on January 2, 2018 and January 26, 2018 as noted in Note 12, there were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.