TGR Financial, Inc. and Subsidiaries

Financial Report
12.31.2018

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

RSM US LLP

Independent Auditor's Report

Board of Directors
TGR Financial, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of TGR Financial, Inc. and its subsidiaries (the Company), which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TGR Financial, Inc. and its subsidiaries as of December 31, 2018 and 2017, 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.

Other Matter

We have also audited, in accordance with auditing standards generally accepted in the United States of America, TGR Financial, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 26, 2019 expressed an unqualified opinion on the effectiveness of TGR Financial, Inc.'s internal control over financial reporting.

RSM US LLP

Jacksonville, FL
March 26, 2019

TGR Financial, Inc. and Subsidiaries

Consolidated Statements of Financial Condition

($ in thousands, except share data)	December 31, 2018	December 31, 2017
Assets:		
Cash and due from banks	$ 31,430	$ 41,454
Interest earning balances due from banks and others	61,351	96,088
Total cash and cash equivalents	92,781	137,542
Securities available-for-sale, at fair value	166,092	169,920
Securities held-to-maturity (fair value of $51,777 and $30,179, respectively)	53,036	30,045
Federal Reserve and Federal Home Loan Bank stock, at cost	4,445	4,281
Other equity securities	456	465
Loans (net of allowance for loan losses of $9,585 and $9,355, respectively)	1,080,492	958,955
Premises and equipment, net	21,558	21,769
Goodwill and other intangibles	5,465	5,542
Bank owned life insurance	28,069	27,418
Deferred tax asset, net	2,673	3,032
Other assets	5,838	5,292
Total assets	$ 1,460,905	$ 1,364,261
Liabilities and Stockholders' Equity:		
Liabilities:		
Noninterest-bearing demand deposits	$ 227,437	$ 206,142
Interest-bearing liabilities:		
Money market	160,801	178,807
NOW	597,274	476,821
Savings	38,211	52,889
Time deposits equal to or under $250,000	122,146	117,827
Time deposits over $250,000	50,803	97,280
Total deposits	1,196,672	1,129,766
Customer repurchase agreements	131,650	114,666
Total borrowings	131,650	114,666
Other liabilities	3,209	3,865
Total liabilities	1,331,531	1,248,297
Commitments and Contingencies (Note 8)		
Stockholders' Equity:		
Common stock, $1 par value; 500,000,000 shares authorized, 17,299,169 and 17,262,969, issued and outstanding, respectively	17,299	17,263
Preferred stock, Nonvoting Series A Convertible, $1 par value (liquidation preference $0.001); 7,050,000 shares authorized, 1,037,984 issued and outstanding	1,038	1,038
Additional paid-in capital	92,553	92,254
Retained earnings	21,952	6,923
Accumulated other comprehensive loss, net of tax	(3,468)	(1,514)
Total stockholders' equity	129,374	115,964
Total liabilities and stockholders' equity	$ 1,460,905	$ 1,364,261

See Notes to Consolidated Financial Statements.

TGR Financial, Inc. and Subsidiaries
Consolidated Statements of Income
($ in thousands, except per share data)

	For the Years Ended December 31, 2018	2017
Interest income:		
Loans	$ 47,208	$ 40,719
Investment securities	5,917	4,206
Interest bearing balances due from banks and others	772	684
Total interest income	53,897	45,609
Interest expense:		
Deposits	8,654	5,866
Customer repurchase agreements	1,253	636
Other borrowed funds	5	281
Total interest expense	9,912	6,783
Net interest income	43,985	38,826
Provision for loan losses	125	-
Net interest income after provision for loan losses	43,860	38,826
Non-interest income:		
Service charges and fees on deposit accounts	1,605	1,362
Title and closing services revenue	593	510
Gain on sale of other real estate owned	-	1,021
Loss on sale of securities, net	-	(393)
Bank owned life insurance	651	679
Other non-interest income	931	551
Total non-interest income	3,780	3,730
Non-interest expense:		
Salaries and employee benefits	17,381	16,927
Occupancy and equipment	4,023	4,027
Professional fees	841	916
Data processing	1,700	1,529
Advertising, marketing, and business development	871	924
Regulatory assessments	788	997
Other non-interest expense	3,282	3,772
Total non-interest expense	28,886	29,092
Income before income taxes	18,754	13,464
Provision for income taxes	3,725	5,340
Net income	$ 15,029	$ 8,124
Basic earnings per common share	$ 0.87	$ 0.47
Diluted earnings per common share	$ 0.78	$ 0.43
Basic weighted average number of common shares outstanding	17,297,577	17,242,614
Diluted weighted average number of common shares outstanding	19,381,589	19,007,260

See Notes to Consolidated Financial Statements.

TGR Financial, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
($ in thousands)

	For the Years Ended December 31, 2018	2017
Net income	$ 15,029	$ 8,124
Unrealized holding gains (losses) arising during the period	(2,617)	119
Less: Reclassification adjustment for losses (gains) recognized in earnings	-	630
Other comprehensive income (loss) before tax	(2,617)	749
Income taxes (benefit)	(663)	282
Other comprehensive income (loss), net of tax:	(1,954)	467
Total comprehensive income	$ 13,075	$ 8,591

See Notes to Consolidated Financial Statements.

TGR Financial, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
($ in thousands, except per share data)

	Number of Outstanding Common Stock Shares	Common Stock	Number of Outstanding Preferred Stock Shares	Preferred Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	**17,228,092**	**$ 17,228**	**1,037,984**	**$ 1,038**	**$ 91,315**	**$ (1,201)**	**$ (1,981)**	**$ 106,399**
Net income	-	-	-	-	-	8,124	-	8,124
Other comprehensive income	-	-	-	-	-	-	467	467
Common stock issued for net-share-settled options	34,877	35	-	-	(54)	-	-	(19)
Stock based compensation expense	-	-	-	-	993	-	-	993
Balance, December 31, 2017	**17,262,969**	**$ 17,263**	**1,037,984**	**$ 1,038**	**$ 92,254**	**$ 6,923**	**$ (1,514)**	**$ 115,964**
Net income	-	-	-	-	-	15,029	-	15,029
Other comprehensive loss	-	-	-	-	-	-	(1,954)	(1,954)
Common stock issued for net-share-settled options	36,200	36	-	-	(53)	-	-	(17)
Stock based compensation expense	-	-	-	-	352	-	-	352
Balance, December 31, 2018	**17,299,169**	**$ 17,299**	**1,037,984**	**$ 1,038**	**$ 92,553**	**$ 21,952**	**$ (3,468)**	**$ 129,374**

See Notes to Consolidated Financial Statements.

TGR Financial, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
($ in thousands)

	For the Years Ended December 31, 2018	2017
Cash Flows From Operating Activities:		
Net income	$ 15,029	$ 8,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	125	-
Premium amortization and discount accretion on securities, net	1,328	1,758
Depreciation and amortization of premises and equipment	1,272	1,307
Amortization of net deferred loan costs	2,691	2,594
Gain on sales of other real estate owned	-	(1,021)
Gain on sale of fixed assets	-	(10)
Net loss on sales of securities available for sale	-	393
Deferred income tax expense	1,024	3,668
Excess tax benefit from stock based compensation	(94)	(119)
Increase in bank owned life insurance cash surrender value	(651)	(679)
Amortization of core deposit and other intangibles	(864)	(2,107)
Amortization of other intangibles	77	91
Stock based compensation expense	352	993
Net change in:		
Other assets	(453)	(894)
Other liabilities	(656)	989
Net cash provided by operating activities	19,180	15,087
Cash Flows From Investing Activities:		
Purchase of premises and equipment	(1,061)	(3,847)
Net redemption (purchase) of Federal Home Loan and Federal Reserve Bank stock	(164)	2,595
Purchase of securities held to maturity	(23,346)	(26,180)
Purchase of securities available for sale	(30,889)	(37,463)
Proceeds from maturities, calls and principal repayments of securities	31,135	31,149
Proceeds from the sale of securities available for sale	-	23,798
Proceeds from the sale of fixed assets	-	10
Proceeds from the sale of other real estate	-	1,021
Originations and principal collections on loans, net	(123,490)	(58,512)
Net cash used in investing activities	(147,815)	(67,429)
Cash Flows From Financing Activities:		
Net increase in deposits	66,907	208,963
Net increase in customer repurchase agreements	16,984	8,680
Net decrease in short term borrowings	-	(43,000)
Net decrease in long term borrowings	-	(20,000)
Statutory income tax withholding on net-share-settled options	(17)	(19)
Net cash provided by financing activities	83,874	154,624
Net increase (decrease) in cash and cash equivalents	(44,761)	102,282
Cash and cash equivalents:		
Beginning of period	137,542	35,260
End of period	$ 92,781	$ 137,542
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	$ 9,878	$ 6,274
Cash payments for taxes	$ 3,130	$ 1,550

See Notes to Consolidated Financial Statements.

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business: TGR Financial, Inc. (the "Company") owns and operates First Florida Integrity Bank (the "Bank"). The Company offers a diversified range of financial services to its retail and commercial customers through its full service offices located in Naples, Marco Island, Tampa and Ave Maria, Florida.

On December 28, 2016, TGR Insurance Company (the "Captive"), a captive insurance company, was organized under the laws of the state of Nevada. The Captive is a wholly owned subsidiary of the Company.

Basis of presentation: The consolidated financial statements present the years ended December 31, 2018 and 2017.

The financial statements include the accounts of TGR Financial, Inc., a single segment bank holding company, and its wholly owned subsidiaries, TGR Insurance Company and First Florida Integrity Bank. The Bank has a wholly-owned subsidiary, First National Title and Closing Services, Inc. ("First National Title"), an entity formed to issue third-party title insurance and provide loan closing services. Intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform to accounting policies generally accepted in the United States of America and general practices within the financial services industry.

Use of estimates: In preparing the financial statements, management is required to make estimates and assumptions which significantly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to change in the near term include the allowance for loan losses, the valuation of loans acquired with credit deterioration, impairment of goodwill and intangibles, valuation of deferred tax assets and the fair values of financial instruments.

Cash and cash equivalents: Cash and cash equivalents includes cash on hand and amounts due from banks, including cash items in process of clearing, interest earning balances due from banks and the State of Florida plus federal funds sold. The Company may be required to maintain reserve balances with the Federal Reserve Bank. The Company had required reserves of $3.2 and $5.5 million as of December 31, 2018 and 2017, respectively. Cash flows from loans and deposits are reported net.

Securities: Management classifies debt securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities classified as trading are recorded at fair value with unrealized gains and losses included in earnings. The Company does not engage in securities trading activities and accordingly no securities are classified as trading securities. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported in the consolidated statements of comprehensive income. Effective January 1, 2018, in accordance with ASU 2016-01 (see Note 1 – Recent accounting pronouncements), investments in equity securities with readily determinable fair values are stated at fair value with unrealized changes in fair value recorded in earnings. Investments in equity securities that do not have readily determinable fair values are stated at cost minus impairment. Realized gains and losses on the sale of securities are recorded in earnings on the trade date and are determined on the specific identification basis.

On a quarterly basis, the investment portfolio is evaluated for other-than-temporary-impairment ("OTTI") in accordance with ASC 320, "Investments – Debt and Equity Securities." An investment security is considered impaired if the fair value of the security is less than its cost or amortized cost basis. When impairment of an equity security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded in earnings. The amount of OTTI recorded as a loss in earnings depends on whether we intend to sell the debt security and whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If we intend to sell the debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value is recorded as an impairment loss in earnings. If we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis, OTTI is separated into the amount representing credit loss and the amount related to all other market factors. The amount related to credit loss is recognized in earnings. The amount related to other market factors is recognized in other comprehensive income, net of applicable taxes.

The amount of OTTI recorded in earnings as a credit loss is dependent upon management's estimate of discounted future cash flows expected from the investment security. The difference between the discounted future cash flows and the amortized cost basis of the security is considered to be credit loss. The remaining difference between the fair value and the amortized cost basis of the security is considered to be related to all other market factors. Our estimate of discounted future cash flows incorporates a number of assumptions based on both qualitative and quantitative factors. Performance indicators of the security's underlying assets, including credit ratings and current and projected default and deferral rates, as well as the credit quality and capital ratios of the issuers are considered in the analysis. Changes in these assumptions could impact the amount of OTTI recognized as a credit loss in earnings.

Federal Home Loan Bank and Federal Reserve Bank stock: The Company, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta system and of the Federal Reserve Bank, is required to maintain an investment in capital stock of the FHLB and the Federal Reserve Bank. FHLB and Federal Reserve Bank stock are carried at cost. A ready market does not exist for these stocks and therefore there are no quoted market values. Management evaluates FHLB and Federal Reserve Bank stock for impairment based on the ultimate recoverability of its cost basis. No OTTI write downs were recorded on these securities.

Loans: Loans originated during the period are stated at the amount of unpaid principal, reduced by deferred loan origination fees, net of direct loan origination costs, and an allowance for loan losses.

Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on loans is generally discontinued when a loan is greater than 90 days past due or when, in the opinion of management, full repayment of principal and interest is in doubt. Past due status is based on contractual terms of the loans. Interest accrued but uncollected for loans placed on nonaccrual status is reversed against interest income. Interest on these loans is accounted for on the cash or cost-recovery basis until the loans qualify for return to accrual status.

Accrual of interest is generally resumed when the customer is current on all principal and interest payments and collectability of the loan is no longer in doubt.

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans such as consumer and residential mortgage loans may be collectively evaluated for impairment.

Loan origination fees and certain direct loan origination costs are deferred and the net amount is amortized, using the effective interest method, as an adjustment of the related loan's yield over the contractual life of the loans.

A loan is classified as a troubled debt restructured loan when a borrower is experiencing financial difficulties that lead to a restructuring and the Company grants a concession it would not otherwise consider. Concessions may include rate reductions, extensions of maturities or other potential actions intended to minimize potential losses.

Troubled debt restructurings, by definition, are impaired loans. As such, they are measured on a loan-by-loan basis (or in pools of similar characteristics) by either the present value of expected future cash flows discounted at the loan's original contractual interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Allowance for loan losses: The allowance for loan losses is maintained at a level considered adequate to absorb losses relating to specifically identified loans as well as probable credit losses inherent in the balance of the loan portfolio. The allowance is established by a provision charged to operations. Loans are charged against the allowance when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The Company performs on-going credit reviews of individual non-homogeneous loans in the portfolio considering current economic conditions, borrower's payment history, developments in the Florida real estate market, historical loan loss experience, industry loan loss experience, specific problem loans, growth and composition of the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of underlying collateral, financial strength of guarantors, and other factors in determining the adequacy of the allowance. A loan is considered impaired if it is probable that the Company will be unable to collect all amounts due according to the contractual loan agreement. A specific reserve may initially be established for each loan based upon impairment analyses when it is the Company's expectation principal will not be fully collected. While management uses the best information available to make its evaluation, the evaluation is inherently subjective and future adjustments to the allowance may be necessary.

The allowance consists of specific and general components. Specific reserves may be established for loans that management has determined to be impaired. The general component is determined by major loan category based on historical loss experience adjusted for qualitative factors, risk ratings and in certain cases, peer data.

The Company has developed policies and procedures for evaluating the overall quality of the credit portfolio and the timely identification of loans that may pose a risk of loss. Additions to the allowance for loan losses, which are expensed as the provision for loan losses on the statement of operations, are made periodically to maintain the allowance at an appropriate level to absorb losses incurred in the portfolio based on management's analysis of collectability. Any loan losses and recoveries would be charged or credited directly to the allowance. The Company maintains a component of the allowance for three categories of real estate secured loans in our portfolio – residential (first mortgage, second mortgage and home equity lines of credit), commercial real estate loans and construction/other real estate loans, and three other categories, commercial and industrial, factored receivables and consumer loans.

Under the Company's loan risk rating system, each loan is risk rated pass, pass-watch, other loans especially mentioned ("OLEM"), substandard or doubtful by the originating loan officer, credit management, and loan review or loan committee. Loans rated pass represent those loans least likely to default and a loan rated doubtful represents a loss. Refer to Note 3 for further definition of the Company's credit quality factors/risk ratings. Estimated loan default factors are multiplied by individual loan balances for each loan type to determine an appropriate level of allowance by loan type. This approach is applied to all components of the loan portfolio.

The general allowance for loan losses also includes estimated losses resulting from macroeconomic factors and adjustments to account for imprecision of the loan loss model. Macroeconomic factors adjust the allowance for loan losses upward or downward based on the current point in the economic cycle and are applied to the loan loss model through a separate allowance element for each component. To determine the Company's macroeconomic factors, the Company uses specific economic data that has a correlation with loan losses. The Company reviews this data quarterly to determine that such a correlation continues to exist. Additionally, the macroeconomic factors are reviewed quarterly in order to conclude they are appropriate based on current economic conditions. Other qualitative factors considered include, but are not limited to: recent loan loss trends, changes in portfolio composition, concentrations of credit, changes in the Company's risk profile, current interest rates and local economic conditions and trends. Based on present information, the Company considers the allowance for loan losses to be appropriate. Management's judgment about the appropriateness of the allowance is based on a number of assumptions about future events which the Company believes to be reasonable, but which may or may not prove to be accurate. There can be no assurance that charge-offs in future periods will not exceed the allowance for loans losses or that additional increases in the allowance for loan losses will not be required.

<u>Loans acquired through business combination</u>: Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Acquired credit-impaired loans are accounted

for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, in accordance with ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30") and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Increases in expected cash flows, including prepayments, to be collected on these loans are recognized as an adjustment of the loan's yield over its remaining life, while decreases in expected cash flows are recognized as impairment or reduced yield over the remaining life. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans.

Premises and equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Building	39.5
Leasehold improvements	10 - 10.6
Furniture, fixtures and office equipment	5 - 10
Computer equipment	3 - 5
Automobiles	3

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the lease terms.

Other real estate owned: Real estate properties acquired through or in lieu of foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure establishing a new costs basis. Fair value is determined by obtaining appraisals or other market value information at least annually. Any write-downs in value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by obtaining updated appraisals or other market information. Any subsequent write-downs are recorded as a charge to operations, if necessary to reduce the carrying value of a property to the updated fair value less estimated selling cost. Net costs related to the holding of properties are included in noninterest expense.

Goodwill and other intangible assets: Goodwill and indefinite lived intangibles recognized in business combination transactions are not amortized but are evaluated at least annually for impairment. Other intangible assets with finite lives are amortized over their expected useful lives using the straight line method and are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impairment exists when the carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test prior to the adoption of ASU No. 2017-04, *"Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment".* The remaining step required the Company to compare the fair value of its single reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds its single reporting unit's fair value. The Company's annual impairment analysis as of December 31, 2018, indicated that the fair value of the reporting unit exceeded its carrying amount.

Income taxes: The Company files a consolidated federal tax return. Deferred taxes are determined using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating losses or tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the basis of assets and liabilities for income tax and financial reporting purposes. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in the valuation allowance are included in the Company's tax position within the period of change. In determining whether a valuation is warranted, the Company evaluates factors such as expected future earnings and tax strategies.

Tax benefits are recognized if it is more-likely-than-not, based on the technical merits, the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Interest and penalties on income taxes are recognized as a component of income tax expense.

The Company had the opportunity, with the adoption of Accounting Standards Update 2018-02 *"Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)"* to reclassify the stranded income tax effects from accumulated other comprehensive income to retained earnings. The impact of adopting the update was immaterial.

<u>Share-based compensation</u>: Stock-based compensation expense is measured using fair value and is recorded over the requisite service or performance period of the awards, or to an employee's eligible retirement date under the award agreement, if earlier. The Company measures stock-based compensation expense using the calculated value method. Under this method, the Company estimates the fair value of each stock option on the grant date using the Black-Scholes valuation model. The Company began trading on the OTC Markets Group, Inc. (specifically OTCQX) in September 2016. Expected volatility considered the average of the Company's actual trading results for the immediately preceding one, six and 12 months periods. Expected dividends are based on the assumption that no dividends were expected to be distributed in the near future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The Company recognizes stock-based compensation expense for time-based awards on a straight line basis over the requisite vesting period. Stock-based compensation expense for time-based stock options for employee grants is recognized in personnel costs, while expense for director grants is included in other operating expenses on the Consolidated Statements of Income. The related income tax benefit on stock-based compensation is recognized in income tax expense on the Consolidated Statements of Income. The Company's current policy is to issue new shares upon the net-share-settled exercise of stock options and account for forfeitures when they occur.

<u>Bank owned life insurance</u>: The Company has life insurance policies on certain key executives. Bank-owned life insurance ("BOLI") is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts likely due at settlement.

Fair value measurements: Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, unadjusted for transaction costs.

Disclosure of fair value measurements is based on a three-level valuation hierarchy. Fair value is used on a recurring basis for assets and liabilities that are elected to be accounted at fair value as well as for assets and liabilities in which fair value is the primary basis of accounting such as for securities available for sale. Fair value is used on a non-recurring basis to evaluate assets and liabilities for impairment or for disclosure purposes. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

> Level I – inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.
>
> Level II – inputs to the valuation methodology include quoted prices in markets that are not active or quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
>
> Level III – inputs to the valuation methodology are unobservable, reflecting the entity's own assumptions about assumptions market participants would use in pricing the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Depending on the nature of the asset or liability, the Company uses a variety of valuation techniques when estimating fair value. See Note 15 for further disclosure about fair value measurements.

Earnings per share: Basic earnings per share represents net income divided by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings per share reflects additional, potential common shares that would have been outstanding if dilutive potential common shares had been issued using the treasury stock method. Potentially dilutive common shares that may be issued by the Company include convertible preferred stock and outstanding stock options and warrants.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists of the net change in unrealized gains and losses on the Company's securities available for sale, including the noncredit-related portion of unrealized gains (losses) of other than temporarily impaired securities, and the effective portion of the change in fair value of derivative instruments.

Revenue recognition: Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. The Company recognizes revenue from these activities as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Descriptions of the major revenue-generating activities that are within the scope of ASC 606, which are presented in the accompanying statements of income as components of non-interest income are as follows:

Deposit Fees - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Bank Card Fees – bank card related fees primarily includes interchange income from client use of consumer and business debit cards. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network. Interchange fees are set by the credit card associations and are based on cardholder purchase volumes. The Company records interchange income as transactions occur.

Gains and Losses from the Sale of Bank Owned Property – the performance obligation in the sale of other real estate owned typically will be the delivery of control over the property to the buyer. If the Company is not providing the financing of the sale, the transaction price is typically identified in the purchase and sale agreement. However, if the Company provides seller financing, the Company must determine a transaction price, depending on if the sale contract is at market terms and taking into account the credit risk inherent in the arrangement.

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affects the determination of the amount and timing of revenue from the above-described contracts with clients.

The Company has applied ASC 606 using the modified retrospective approach effective on January 1, 2018 to all existing contracts with clients covered under the scope of the standard. The Company did not have an aggregate effect of modification resulting from adoption of ASC 606, and no financial statement line items were affected by this change in accounting standard.

<u>Recent accounting pronouncements</u>: In January 2016, FASB issued ASU 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities."* ASU 2016-01 revises the accounting for the classification and measurement of investments in equity securities and revises the presentation of certain fair value changes for financial liabilities measured at fair value. For equity securities, the guidance in ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires presenting, in other comprehensive income, the change in fair value that relates to

a change in instrument-specific credit risk. ASU 2016-01 also eliminates the disclosure assumptions used to estimate fair value for financial instruments measured at amortized cost and requires disclosure of an exit price notion in determining the fair value of financial instruments measured at amortized cost. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. The Company adopted the new standard effective January 1, 2018 and it did not have a material impact on its results of operations or financial statement disclosures.

In February 2016, FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" requires the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. The Company adopted Topic 842 effective January 1, 2019 and recorded a lease liability of approximately $3.9 million with an offsetting right-of-use asset. It is expected to have an immaterial impact on its results of operations compared to the current lease accounting model.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The update will significantly change the way entities recognize impairment on many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. The FASB describes this impairment recognition model as the current expected credit loss ("CECL") model and believes the CECL model will result in more timely recognition of credit losses since the CECL model incorporates expected credit losses versus incurred credit losses. The scope of FASB's CECL model would include loans, held-to-maturity debt instruments, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value. This update becomes effective for the Company for interim and annual periods beginning after December 15, 2020. Management is currently evaluating the impact this ASU will have on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*," (ASU 2016-15) subsequently updated in November 2016 with ASU 2016-18, which reduces diversity in the presentation of several categories of transactions in the cash flow statement. ASU 2016-15 and ASU 2016-18 are intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows, including (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions and (8) separately identifiable cash flows and application of the predominance principle. This amendment becomes effective for the Company for interim and annual periods beginning after December 15, 2017. The Company adopted the ASU effective January 1, 2018, it only impacted the presentation of specific items within the Statement of Cash Flows and did not have a material impact to the Company.

In March 2017, the FASB issued ASU No. 2017-08, "*Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities*". The update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the update requires the premium to be amortized to the earliest call date. The update does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In May 2017, the FASB issued ASU No. 2017-09, "*Compensation – Stock Compensation (Subtopic 718): Scope of Modification Accounting"*. The update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following conditions are met: the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in the update should be applied prospectively to an award modified on or after the adoption date. The amendments in the update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the ASU effective January 1, 2018 and it did not have a material impact on the Company's consolidated financial position or results of operations.

In August 2017, FASB issued ASU 2017-12, *"Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"* ("ASU 2017-12"). ASU 2017-12 is intended to simplify hedge accounting by eliminating the requirement to separately measure and report hedge effectiveness. ASU 2017-12 also seeks to expand the application of hedge accounting by modifying current requirements to include hedge accounting on partial-term hedges, the hedging of pre-payable financial instruments and other strategies. ASU 2017-12 will be effective for interim and annual periods beginning after December 15, 2018. The Company does not have any derivatives and has not participated in any hedged transactions, therefore adoption of this update will not impact the Company's consolidated financial positon or results of operations.

Reclassifications: Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income or stockholders' equity.

Subsequent Events: Management has evaluated subsequent events through March 26, 2019, the date the financial statements were available to be issued.

NOTE 2. SECURITIES

The amortized cost and fair value of securities at December 31, 2018 and 2017, respectively, are summarized as follows (dollars in thousands).

December 31, 2018:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities Available for Sale				
U.S. Government agencies and government sponsored entities	$ 43,440	$ -	$ 707	$ 42,733
Agency mortgage backed securities	72,448	-	2,115	70,333
Agency collateralized mortgage obligations	26,577	-	1,265	25,312
State, county and municipal	5,763	-	223	5,540
Corporate bonds	22,511	18	355	22,174
Total	$ 170,739	$ 18	$ 4,665	$ 166,092
Securities Held to Maturity				
Agency mortgage backed securities	$ 1,146	$ -	$ 5	1,141
State, county and municipal	40,883	-	1,371	39,512
Corporate bonds	11,007	137	20	11,124
Total	$ 53,036	$ 137	$ 1,396	$ 51,777
December 31, 2017:				
Securities Available for Sale				
U.S. Government agencies and government sponsored entities	$ 33,660	$ 9	$ 266	$ 33,403
Agency mortgage backed securities	83,019	4	1,150	81,873
Agency collateralized mortgage obligations	28,986	-	525	28,461
State, county and municipal	5,795	-	144	5,651
Corporate bonds	20,487	69	24	20,532
Total	$ 171,947	$ 82	$ 2,109	$ 169,920
Securities Held to Maturity				
Agency mortgage backed securities	$ -	$ -	$ -	$ -
State, county and municipal	20,534	10	128	20,416
Corporate bonds	9,511	252	-	9,763
Total	$ 30,045	$ 262	$ 128	$ 30,179

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2018 and 2017, respectively, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (dollars in thousands).

	Less than Twelve Months		Twelve Months or More		Total	
December 31, 2018:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale						
U.S. Government agencies and government sponsored entities	$ 259	$ 21,647	$ 447	$ 20,603	$ 706	$ 42,250
Agency mortgage backed securities	46	4,261	2,069	66,073	2,115	70,334
Agency collateralized mortgage obligations	-	-	1,265	25,312	1,265	25,312
State, county and municipal	19	1,046	204	4,494	223	5,540
Corporate bonds	318	11,192	38	5,462	356	16,654
	$ 642	$ 38,146	$ 4,023	$ 121,944	$ 4,665	$ 160,090
Securities Held to Maturity						
Agency mortgage backed securities	$ 5	$ 1,141	$ -	$ -	$ 5	$ 1,141
State, county and municipal	721	21,803	650	17,709	1,371	39,512
Corporate bonds	20	3,080	-	-	20	3,080
	$ 746	$ 26,024	$ 650	$ 17,709	$ 1,396	$ 43,733
December 31, 2017:						
Securities Available for Sale						
U.S. Government agencies and government sponsored entities	$ 35	$ 10,886	$ 231	$ 19,694	$ 266	$ 30,580
Agency mortgage backed securities	259	27,248	891	39,393	1,150	66,641
Agency collateralized mortgage obligations	379	23,662	146	4,799	525	28,461
State, county and municipal	2	1,063	142	4,588	144	5,651
Corporate bonds	7	3,485	17	5,483	24	8,968
	$ 682	$ 66,344	$ 1,427	$ 73,957	$ 2,109	$ 140,301
Securities Held to Maturity						
Agency mortgage backed securities	$ -	$ -	$ -	$ -	$ -	$ -
State, county and municipal	128	9,615	-	-	128	9,615
Corporate bonds	-	-	-	-	-	-
	$ 128	$ 9,615	$ -	$ -	$ 128	$ 9,615

As of December 31, 2018, 119 Available for Sale ("AFS") plus 68 Held to Maturity ("HTM") investment securities, totaling 187 investment securities were in unrealized loss positions. The unrealized losses resulted from fair values falling below book values due to higher levels of market interest rates on the measurement date. The fair value of fixed rate investment securities is inversely proportional to interest rates - rising market interest rates cause reductions in the fair values assigned to investment securities. Unrealized losses by security type, as of December 31, 2018, are further described below. Pursuant to the Bank's Other Than Temporary Impairment ("OTTI") Policy, management performed OTTI assessments on credit and other market factors, however no OTTI was recorded. The primary conclusion is the Company does not intend to sell, nor is the Company more-likely-than-not to be required to sell these securities before recovery of its amortized cost.

U.S. Government Agencies and Government Sponsored Entities

As of December 31, 2018, fifty AFS U.S. government agency securities were in unrealized loss positions, including forty-seven issued by the Small Business Administration ("SBA"). There were no U.S. government agency securities classified as HTM in a loss position. The three non-SBA agency bonds all had losses within -2%. Two of the three had been in unrealized loss positions for less than twelve months. Bonds issued by SBA carry the full faith and credit of the United States government; the bond credit rating is implicit AAA. The SBA unrealized losses ranged from -0.58% to -5.31%, averaging -2.20%. Management concluded that the unrealized losses within the agency securities were not other-than-temporary based on:

- Small unrealized losses
- The issuers had not defaulted
- Full faith and credit of the U.S. Government
- AAA credit rating
- The Company does not intend to sell, nor is the Company more likely than not to be required to sell before recovery of its amortized cost

Agency Mortgage Backed Securities

As of December 31, 2018, one HTM plus thirty-five AFS mortgage-backed securities were in unrealized loss positions, including twenty three issued by Federal National Mortgage Association ("FNMA or Fannie Mae"), twelve issued by Federal Home Loan Mortgage Corporation ("FHLMC or Freddie Mac") and one issued by Government National Mortgage Association ("GNMA or Ginnie Mae"). GNMA bonds carry the full faith and credit of the U.S. government. FNMA and FHLMC are Government Sponsored Enterprises ("GSE") created by the United States Congress. GNMA is a U.S. government corporation within the U.S. Department of Housing and Urban Development. These bond credit ratings are implicit AAA. The MBS unrealized losses ranged from -0.46% to -4.94%, averaging -2.88%. Management concluded that the unrealized losses within the MBS securities were not other-than-temporary. The Company does not intend to sell, nor is the Company more-likely-than-not to be required to sell these securities before recovery of its amortized cost.

Agency Collateralized Mortgage Obligations

As of December 31, 2018, sixteen AFS collateralized mortgage obligation bonds were in unrealized loss positions, seven issued by FHLMC, six issued by GNMA and three issued by FNMA. FNMA and FHLMC are GSE, while GNMA bonds carry the full faith and credit of the U.S. government. These bond ratings are implicit AAA. The CMO unrealized losses ranged from -0.53% to -7.04%, averaging -4.76%. Management concluded that the unrealized losses within these fixed rate CMO bonds were not other-than-temporary. The Company does not intend to sell, nor is the Company more-likely-than-not to be required to sell these securities before recovery of its amortized cost.

Corporate Bonds

As of December 31, 2018, ten AFS and two HTM corporate bonds were in unrealized loss positions. The Corporate unrealized losses ranged from -0.21% to -9.03%, averaging only -1.86%. The General Electric Capital Corp bond reported an unrealized loss of -9.03% at year end, but the loss had lasted only two months and improved to -6.30% in January. Management concluded that the unrealized losses within the corporate bond portfolio were not other-than-temporary based on:

- Small unrealized losses

- The issuers had not defaulted
- The issuers' size and financial strength
- The Company's ability to hold the bonds to maturity
- The Company does not intend to sell, nor is the Company more likely than not to be required to sell before recovery of its amortized cost

State, County and Municipal Bonds

As of December 31, 2018, eight AFS plus sixty-five HTM municipal bonds were in unrealized loss positions. The municipal unrealized losses ranged from -0.66% to -9.64%, averaging -3.42%. Management concluded that the unrealized losses within the municipal bond portfolio were not other-than-temporary based on:

- Small sizes
- The issuers had not defaulted
- The Company's ability to hold the bonds to maturity
- The Company does not intend to sell, nor is the Company more likely than not to be required to sell before recovery of its amortized cost

Equity Securities

As of December 31, 2018, the Company had a carrying value of $456,000 in equity securities without readily determinable fair values. Upon qualitative assessment, these securities were not impaired.

The amortized cost and fair value of securities at December 31, 2018 by contractual maturities are shown below (dollars in thousands). Expected maturities will differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale	
	Amortized Cost	**Fair Value**
Due within one year	$ 4,476	$ 4,468
Due after one year through five years	$ 24,784	24,391
Due after five years through ten years	$ 41,695	40,904
Due over ten years	$ 99,784	96,329
Total	$ 170,739	$ 166,092

	Securities Held to Maturity	
	Amortized Cost	**Fair Value**
Due within one year	$ -	$ -
Due after one year through five years	299	297
Due after five years through ten years	17,864	17,821
Due over ten years	34,873	33,659
Total	$ 53,036	$ 51,777

The Bank had one redemption and no sales during the year ended December 31, 2018. For the year ended December 31, 2017, the Bank sold securities with gross gains of $0 and gross losses of $393,000. No OTTI charges were recognized in 2018 or in 2017.

At December 31, 2018 and 2017, respectively, securities with a carrying value of $39 million and $43 million were pledged to the State of Florida as collateral for deposits of public entities. Additionally, $0 and $26.9 million in cash collateral was pledged to the State of Florida at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, respectively, securities with a carrying value of $130 million and $113 million were pledged as collateral for customer repurchase agreements. At December 31, 2018, there were securities with a market value of $48 million dollars available for pledging.

NOTE 3. LOANS, ALLOWANCE AND ASSET QUALITY

The composition of net loans is as follows at December 31, 2018 and 2017, respectively (dollars in thousands).

	December 31, 2018		December 31, 2017	
Residential single and multifamily	$ 288,046	26%	$ 312,464	32%
Commercial real estate	537,500	49%	449,184	46%
Construction loans	104,657	10%	92,164	10%
Commercial and industrial	137,903	13%	94,538	10%
Consumer installment loans	11,608	1%	10,472	1%
Factored receivables	10,363	1%	9,488	1%
	1,090,077	100%	968,310	100%
Less allowance for loan losses	(9,585)		(9,355)	
Net loans	$ 1,080,492		$ 958,955	

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. Management evaluates credit risk on the following portfolio segments:

<u>Residential Single and Multifamily Loans (including Home Equity Lines of Credit)</u>: Prior to June 2017, the Company originated fixed and adjustable rate residential real estate loans secured by one to four family and, on a very limited basis, multifamily dwellings. First mortgage loan terms range from five to thirty years. Beginning July 2017, the Company elected to exit residential lending, excluding home equity lines of credit, for portfolio purposes. Fixed rate residential loans are referred to a broker and upon closing the Company receives a fee, generally between 1.0% and 1.5% of the loan balance.

<u>Commercial Real Estate Loans</u>: The Company’s goal is to originate and maintain a high quality portfolio of commercial real estate loans with customers who meet the quality and relationship profitability

objectives of the Company. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the underlying property. The Company also looks to the sale of the underlying collateral as a means of secondary repayment. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

Construction Loans: The Company defines construction loans as loans where the loan proceeds are controlled by the Company and used exclusively for the improvement of residential or commercial real estate in which the Company holds a mortgage. These loans generally must be supported by an adequate "as completed" value of the underlying project. In addition to the underlying project, the financial history of the borrower weighs significantly in determining approval. The repayment of these loans is typically through permanent financing upon completion of the construction. Real estate construction loans are inherently more risky than loans on completed properties due to the unimproved nature and the financial risks of construction. Due to the inherent risk in this type of loan, they are subject to industry specific policy guidelines outlined in the Company's Loan Policy and are monitored closely.

Commercial and Industrial Loans: Commercial credit is extended primarily to middle market customers. Such credits typically comprise working capital loans, loans for physical asset expansion, asset acquisition loans and other business loans. Loans to closely held businesses will generally be guaranteed in full or for a substantial amount by the businesses' majority owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower, secondarily on the underlying collateral provided by the borrower and in the case of accounts receivable financing, on the creditworthiness of the account debtor. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Additionally, the bank may elect to participate in Shared National Credits ("SNCs"). There was a total of $23.9 million in SNC participations outstanding as of December 31, 2018. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Consumer Installment Loans: The Company originates consumer loans mostly comprised of automobile and light duty truck loans, lot loans and personal lines of credit, secured and unsecured. Each loan type has a separate underwriting matrix including but not limited to debt to income ratio, term requirements, type of collateral and loan to collateral value, credit history and relationship with the borrower.

Factored Receivables: The Company offers primarily recourse accounts receivable financing targeted toward business-to-business clients, selling to credit-worthy debtors with annual sales volume of at least $500,000. Client sales must be unconditional with receivables that are collectable with no contingencies, inclusive of no consignment and no return rights. The credit relationship is based heavily upon the controls of the collateral and the overall credit worthiness of the client's account debtors. The Company generally advances between 75%-85% of invoice face value. The primary target clients are located within the state of Florida, however clients outside the state may be considered on an exception basis.

Allowance for Loan Losses

The following table illustrates certain information with respect to our allowance for loan losses and the composition of charge-offs and recoveries for the years ended December 31, 2018 and 2017, respectively, (dollars in thousands).

	Residential Single & Multifamily	Commercial Real Estate	Construction Loans	Commercial and Industrial	Consumer and Other	Factored Receivables	Total
The Bank's activity in the allowance for loan losses is summarized below for the year ended December 31, 2018:							
Originated Loans:							
Beginning Balance	$ 1,392	$ 5,247	$ 1,237	$ 969	$ 60	$ 99	$ 9,004
Provision	(339)	207	(132)	212	3	249	200
Charge Offs	-	-	-	7	14	-	21
Recoveries	2	110	-	128	9	-	249
Ending Balance Originated Loans:	$ 1,055	$ 5,564	$ 1,105	$ 1,302	$ 58	$ 348	$ 9,432
Acquired Loans with Deteriorated Credit Quality:							
Beginning balance	267	84	-	-	-	-	351
Provision	(68)	(8)	-	-	-	-	(76)
Charge Offs	56	66	-	-	-	-	122
Recoveries	-	-	-	-	-	-	-
Ending Balance Acquired Loans:	$ 143	$ 10	$ -	$ -	$ -	$ -	$ 153
Ending Balance Total Allowance:	$ 1,198	$ 5,574	$ 1,105	$ 1,302	$ 58	$ 348	$ 9,585
The Bank's activity in the allowance for loan losses is summarized below for the year ended December 31, 2017:							
Originated Loans:							
Beginning Balance	$ 1,920	$ 4,625	$ 1,589	$ 565	$ 83	$ -	$ 8,782
Provision	(688)	622	(352)	372	(12)	99	41
Charge Offs	-	-	-	64	38	-	102
Recoveries	160	-	-	96	27	-	283
Ending Balance Originated Loans:	$ 1,392	$ 5,247	$ 1,237	$ 969	$ 60	$ 99	$ 9,004
Acquired Loans with Deteriorated Credit Quality:							
Beginning balance	315	77	-	-	-	-	392
Provision	(48)	7	-	-	-	-	(41)
Charge Offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Ending Balance Acquired Loans:	$ 267	$ 84	$ -	$ -	$ -	$ -	$ 351
Ending Balance Total Allowance:	$ 1,659	$ 5,331	$ 1,237	$ 969	$ 60	$ 99	$ 9,355

The following tables illustrate certain information with respect to our allowance for loan losses and the composition of impaired loans as of December 31, 2018 and 2017, respectively (dollars in thousands).

	Residential Single & Multifamily	Commercial Real Estate	Construction Loans	Commercial and Industrial	Consumer and Other	Factored Receivables	Total
The Bank's allowance for loan losses impairment evaluation at December 31, 2018:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,055	5,564	1,105	1,302	58	348	9,432
Acquired with deteriorated credit quality	143	10	-	-	-	-	153
Ending Balance Total Allowance:	$ 1,198	$ 5,574	$ 1,105	$ 1,302	$ 58	$ 348	$ 9,585
The Bank's allowance for loan losses impairment evaluation at December 31, 2017:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,392	5,247	1,237	969	60	99	9,004
Acquired with deteriorated credit quality	267	84	-	-	-	-	351
Ending Balance Total Allowance:	$ 1,659	$ 5,331	$ 1,237	$ 969	$ 60	$ 99	$ 9,355
The Bank's loan balances based on impairment evaluation at December 31, 2018:							
Individually evaluated for impairment	$ -	$ -	$ 887	$ -	$ -	$ -	$ 887
Collectively evaluated for impairment	285,850	531,589	103,770	137,879	11,608	10,363	1,081,059
Acquired with deteriorated credit quality	2,196	5,911	-	24	-	-	8,131
Ending Balance Total Loans:	$ 288,046	$ 537,500	$ 104,657	$ 137,903	$ 11,608	$ 10,363	$ 1,090,077
The Bank's loan balances based on impairment evaluation at December 31, 2017:							
Individually evaluated for impairment	$ 288	$ 410	$ 897	$ 7	$ -	$ -	$ 1,602
Collectively evaluated for impairment	308,743	441,572	91,267	94,469	10,472	9,488	956,011
Acquired with deteriorated credit quality	3,433	7,202	-	62	-	-	10,697
Ending Balance Total Loans:	$ 312,464	$ 449,184	$ 92,164	$ 94,538	$ 10,472	$ 9,488	$ 968,310

The below tables represent the loan portfolio, segmented by risk factors, as of December 31, 2018 and 2017, respectively (dollars in thousands). Categories with no assigned loans have been omitted from this table.

As of December 31, 2018	**Residential Single & Multifamily**	**Commercial Real Estate**	**Construction Loans**	**Commercial and Industrial**	**Consumer and Other**	**Factored Receivables**	**Total Loans**
Originated Loans:							
Pass Loans	$ 284,427	$ 528,296	$ 103,770	$ 133,410	$ 11,608	$ 10,363	$ 1,071,874
OLEM	1,423	3,293	887	4,423	-	-	10,026
Substandard	-	-	-	46	-	-	46
Sub-total	285,850	531,589	104,657	137,879	11,608	10,363	1,081,946
Purchased Impaired Loans:							
Pass Loans	$ 1,897	$ 4,553	$ -	$ 24	$ -	$ -	$ 6,474
OLEM	299	40	-	-	-	-	339
Substandard	-	1,318	-	-	-	-	1,318
Sub-total	2,196	5,911	-	24	-	-	8,131
Total	**$ 288,046**	**$ 537,500**	**$ 104,657**	**$ 137,903**	**$ 11,608**	**$ 10,363**	**$ 1,090,077**

As of December 31, 2017	**Residential Single & Multifamily**	**Commercial Real Estate**	**Construction Loans**	**Commercial and Industrial**	**Consumer and Other**	**Factored Receivables**	**Total Loans**
Originated Loans:							
Pass Loans	$ 308,092	$ 441,245	$ 91,268	$ 93,202	$ 10,472	$ 9,488	$ 953,767
OLEM	651	326	896	1,218	-	-	3,091
Substandard	288	411	-	56	-	-	755
Sub-total	309,031	441,982	92,164	94,476	10,472	9,488	957,613
Purchased Impaired Loans:							
Pass Loans	$ 1,969	$ 4,818	$ -	$ 62	$ -	$ -	$ 6,849
OLEM	336	42	-	-	-	-	378
Substandard	1,128	2,342	-	-	-	-	3,470
Sub-total	3,433	7,202	-	62	-	-	10,697
Total	**$ 312,464**	**$ 449,184**	**$ 92,164**	**$ 94,538**	**$ 10,472**	**$ 9,488**	**$ 968,310**

The following are the definitions of the Company's credit quality indicators:

Pass: Loans in all classes are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

Pass/Watch: Loan paying as agreed with generally acceptable asset quality; however borrowers may be uncertain in their ability to maintain or improve their financial performance. Financial condition is unstable and shows minimally acceptable support for credit accommodation. Credit is expected to be strengthened through improved obligor performance and/or additional collateral within a reasonable period of time. Loans rated pass/watch are included in the above table with pass loans.

OLEM: Assets have potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Other Loans Especially Mentioned ("OLEM") assets are not adversely classified and do not expose the Company to a level of risk that warrants adverse classification.

Classified: *Classified (a) Substandard*—Loans inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Classified (b) Doubtful—Loans that have all the weaknesses inherent in a loan classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined. The Company had no loans classified as doubtful at December 31, 2018 or 2017.

Below are the statistics for past due and non-accrual loans, by portfolio segment, as of December 31, 2018 and 2017, respectively (dollars in thousands).

	30-59 Days	60-89 Days	90 + Days	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans	Current Non-Accrual Loans
As of December 31, 2018:								
Originated Loans:								
Residential single & multifamily	$ -	$ -	$ -	$ -	$ -	$ 285,850	$ 285,850	$ -
Commercial real estate	-	-	-	-	-	531,589	531,589	-
Construction loans	-	-	-	-	-	104,657	104,657	-
Commercial and industrial	-	-	-	-	-	137,879	137,879	-
Consumer and other	-	-	-	-	-	11,608	11,608	-
Factored receivables	108	-	-	-	108	10,255	10,363	
Purchase Impaired Loans:								
Commercial real estate	-	-	-	396	396	5,515	5,911	396
All other loan categories	-	-	-	-	-	2,220	2,220	-
Total Loans	**$ 108**	**$ -**	**$ -**	**$ 396**	**$ 504**	**$ 1,089,573**	**$ 1,090,077**	**$ 396**
As of December 31, 2017:								
Originated Loans:								
Residential single & multifamily	$ -	$ -	$ -	$ 288	$ 288	$ 308,743	$ 309,031	$ -
Commercial real estate	-	-	-	280	280	441,702	441,982	-
Construction loans	-	-	-	-	-	92,164	92,164	-
Commercial and industrial	-	-	-	7	7	94,469	94,476	7
Consumer and other	-	-	-	-	-	10,472	10,472	-
Factored receivables	-	-	-	-	-	9,488	9,488	
Purchase Impaired Loans:								
Commercial real estate	-	-	-	435	435	6,767	7,202	435
All other loan categories	-	-	-	-	-	3,495	3,495	-
Total Loans	**$ -**	**$ -**	**$ -**	**$ 1,010**	**$ 1,010**	**$ 967,300**	**$ 968,310**	**$ 442**

The following is a summary of information pertaining to impaired loans for the years ended December 31, 2018 and 2017, respectively (dollars in thousands). There were no new troubled debt restructurings during the years ended December 31, 2018 and 2017. There were no loans classified as troubled debt restructurings that re-defaulted during the period of 12 months from their modification date.

	As of December 31, 2018			For the Year Ended December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Accrual Basis Interest Income	Cash Basis Interest Income
With No Related Allowance Recorded:						
Residential single & multifamily	$ -	$ -	$ -	$ -	$ -	$ 16
Commercial real estate	-	-	-	284	6	-
Construction loans	887	887	-	891	60	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Factored receivables	-	-	-			
With An Allowance Recorded:						
Residential single & multifamily	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Construction loans	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Factored receivables						
Total:						
Residential single & multifamily	-	-	-	-	-	16
Commercial real estate	-	-	-	284	6	-
Construction loans	887	887	-	891	60	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Factored receivables						
	$ 887	$ 887	$ -	$ 1,175	$ 66	$ 16

	As of December 31, 2017			For the Year Ended December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Accrual Basis Interest Income	Cash Basis Interest Income
With No Related Allowance Recorded:						
Residential single & multifamily	$ 288	$ 288	$ -	$ 288	$ -	$ -
Commercial real estate	410	1,138	-	1,231	8	137
Construction loans	897	897	-	901	60	-
Commercial and industrial	7	302	-	11	-	-
Consumer and other	-	-	-	2	-	-
With An Allowance Recorded:						
Residential single & multifamily	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Construction loans	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Total:						
Residential single & multifamily	288	288	-	288	-	-
Commercial real estate	410	1,138	-	1,231	8	137
Construction loans	897	897	-	901	60	-
Commercial and industrial	7	302	-	11	-	-
Consumer and other	-	-	-	2	-	-
	$ 1,602	$ 2,625	$ -	$ 2,433	$ 68	$ 137

The Company had no other real estate owned at December 31, 2018. There was a single residential loan in the process of foreclosure totaling $288,000 at December 31, 2017 that was subsequently satisfied in full in January 2018.

Loans Acquired with Deteriorated Credit Quality

Loans acquired in business combinations that exhibited, at the time of acquisition, evidence of deterioration of the credit quality since origination, such that it was probable that all contractually required payments would not be collected, were as follows as of the dates presented:

	December 31, 2018	December 31, 2017
Commercial real estate	$ 5,911	$ 7,202
Construction loans	-	-
Commercial and industrial	24	62
Residential single & multifamily	2,196	3,433
	$ 8,131	$ 10,697

The following table presents the carrying value of loans determined to be impaired at the time of acquisition as of the dates presented:

	December 31, 2018	December 31, 2017
Contractually required principal and interest	$ 10,408	$ 13,984
Nonaccretable difference	(151)	(596)
Cash flows expected to be collected	10,257	13,388
Accretable yield	(2,126)	(2,691)
Carrying value	$ 8,131	$ 10,697

Changes in the accretable yield of loans acquired with deteriorated credit quality were as follows:

	December 31, 2018	December 31, 2017
Balance at beginning of year	$ 2,691	$ 5,168
Reclassification from non-accretable difference	413	398
Accretion	(723)	(1,171)
Other net activity (1)	(255)	(1,704)
Balance at end of year	$ 2,126	$ 2,691

(1) Includes impact of loan repayments.

NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $3.9 million was recorded in conjunction with the business combination between the Bank and Panther Community Bank, N.A. (“Panther”) in 2009. Additionally, an indefinite lived bank charter intangible asset of $1.2 million was recorded in conjunction with the Panther business combination. Goodwill has been assigned to the Company’s single reporting unit. Fair value of the Company’s single reporting unit is determined using either discounted cash flow analyses based on internal financial forecasts or, if available, market-based valuation multiples for comparable businesses. No impairment was identified for the Company’s goodwill as a result of the testing performed for the year ended December 31, 2018.

Intangible assets subject to amortization include the Company’s trademarked logo and core deposit intangibles recorded with bank acquisitions. The carrying amount of these assets was $389,000 at December 31, 2018. The trademarked logo is being amortized over a period of 20 years. Core deposit intangibles are being amortized over five and ten year periods, respectively. Amortization expense on the Company’s intangibles was $77,000 and $91,000 for the years ended December 31, 2018 and 2017, respectively.

Future amortization of the Company's intangibles are listed in the chart below (dollars in thousands).

Year Ending December 31,		Amount
2019		74
2020		71
2021		68
2022		65
2023		61
Thereafter		50
	$	389

NOTE 5. BORROWINGS

Short and Long Term Borrowings

The Federal Home Loan Bank of Atlanta ("FHLB") has extended credit availability to the Company equal to approximately 25% of total assets as of December 31, 2018. There was $248 million in remaining credit availability at December 31, 2018. All borrowings must be fully secured with eligible collateral. The Company had $284 and $271 million, respectively, in eligible loans pledged as collateral for advances on of December 31, 2018 and 2017, and letters of credit described below.

In addition to advances, the Company obtains irrevocable letters of credit (the "letters") from the FHLB for the purposes of establishing collateral for its qualified public funds. The balance of the letters outstanding fluctuates throughout the year based on public fund balances and collateral needs. On December 31, 2018, the Company had a total of $95 million outstanding in the form of letters of credit. These letters of credit were, respectively, $50 million maturing January 2, 2029 and $45 million maturing December 22, 2027. These letters of credit may be terminated, without cost, upon written notice to the FHLB. The annual cost of each letter of credit is 0.09%.

The Company had no advances outstanding at December 31, 2018 and 2017.

The Company had $97 million authorized under unsecured federal funds lines of credit with six correspondent banks at December 31, 2018. There were no advances under these lines outstanding at December 31, 2018 and 2017.

The Company has customer repurchase agreements with commercial account holders whereby the Company sweeps the customer's accounts on a daily basis and pays interest on these amounts. These agreements are collateralized by investment securities chosen by the Company. The Company had approximately $132 and $115 million in such accounts as of December 31, 2018 and 2017, respectively.

NOTE 6. EARNINGS PER SHARE

Basic earnings per share represents net income divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects additional potential common stock that would have been outstanding if dilutive potential common stock had been issued, as well as any adjustment to income that would result from the assumed issuance, determined using the treasury stock method. Potential common stock that may be issued by the Company relates solely to outstanding stock options, warrants and convertible preferred stock.

There were a total of 2,813,193 and 2,912,889 outstanding warrants and options at December 31, 2018 and 2017, respectively, of which 2,810,693 and 1,545,270 shares were included in the calculation of diluted income per share for 2018 and 2017, respectively. Options totaling 2,500 were excluded from the calculation for December 31, 2018 because the effect would be anti-dilutive. Additionally, warrants totaling 952,500 were excluded from the calculation for December 31, 2017 because the effect would have been anti-dilutive.

	For the Years Ended December 31,	
Earnings Per Common Share	**2018**	**2017**
Basic		
Weighted average number of shares of common stock outstanding - basic:	17,297,577	17,242,614
Basic earnings per share	$ 0.87	$ 0.47
Diluted		
Weighted average number of shares of common stock outstanding:	17,297,577	17,242,614
Effect of stock options	878,124	726,662
Effect of stock warrants	167,904	-
Effect of dilutive convertible preferred shares	1,037,984	1,037,984
Weighted average number of shares of common stock outstanding - diluted:	19,381,589	19,007,260
Diluted earnings per share	$ 0.78	$ 0.43

Nonvoting Series A Convertible Preferred Stock

The Company has authorized 20,000,000 shares of preferred stock of which 7,050,000 shares were authorized under the series designated Nonvoting Series A Convertible Preferred Stock ("preferred shares"). There were 1,037,984 preferred shares outstanding at December 31, 2018 and 2017. Each holder of preferred shares is generally not entitled to vote on any matters. Holders of preferred shares will be entitled to receive dividends and shall rank equally with the Company's holders of common stock. In the event of liquidation, each holder of preferred shares would be entitled to recover, after payment of all Company's debts and liabilities, a preferred liquidation amount equal to the greater of (i) one tenth of one cent per share and (ii) the amount the holder of such preferred share would receive if the share had been converted into common stock. Each preferred share, at the election of the holder, may be converted into an equal number of common shares, if such conversion would not cause the holder to hold greater than 9.99% of the Company's outstanding common stock at the time of such conversion. Furthermore, the preferred shares are not subject to any call or redemption rights on the part of the Company.

NOTE 7. PREMISES AND EQUIPMENT

The major classes of premises and equipment and total accumulated depreciation and amortization at December 31, 2018 and 2017, respectively, are as follows (dollars in thousands).

	As of December 31, 2018	As of December 31, 2017
Land	$ 5,331	$ 5,331
Buildings and improvements	15,936	14,547
Leasehold improvements	2,581	2,803
Furniture, fixtures and office equipment	3,149	2,923
Computer equipment	2,152	1,916
Computer software	1,873	1,858
Automobiles	274	274
Signs	101	98
Construction in progress	411	1,272
	31,808	31,022
Less accumulated depreciation and amortization	10,250	9,253
Premises and equipment, net	$ 21,558	$ 21,769

NOTE 8. COMMITMENTS AND CONTINGENCIES

The Company leases certain branch facilities under non-cancelable operating leases expiring from 2019 through 2022. The leases contain renewal options, generally provide for annual increases in base rent from 3% to 3.5% per annum, and require payment of the Company's pro rata share of property taxes, normal maintenance and insurance.

Rental expense for the periods ended December 31, 2018 and 2017 totaled $694,000 and $790,000, respectively. Future minimum rental payments required under the operating leases at December 31, 2018 were as follows (dollars in thousands).

For the Periods Ended December 31,	Amount
2019	$ 444
2020	25
2021	26
2022	6
Thereafter	-
	$ 501

The Company, in the normal course of business, is party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the statement of financial condition. The contractual amounts of these instruments reflect the Company's involvement in particular classes of financial instruments.

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

Following is a summary of off-balance sheet credit risk information (dollars in thousands).

	December 31, 2018		December 31, 2017	
Commitments to extend credit	$	265,265	$	188,303
Letters of credit	$	1,395	$	839

Commitments to extend credit are commitments to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include cash, accounts receivable, inventory, property, plant and equipment and residential and commercial real estate.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The majority of letters of credit are collateralized by certificates of deposit or other collateral. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company is required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the letter of credit. If the commitment is funded, the Company is entitled to seek recovery from its customer. No liabilities were recorded for these guarantees at December 31, 2018.

NOTE 9. TIME DEPOSITS

At December 31, 2018 and 2017, respectively, the scheduled maturities of time deposits are as follows (dollars in thousands).

December 31, 2018:		**≤ 3 Mths**		**3-6 Mths**		**6 Mths-1 Yr**		**1-3 Yrs**		**> 3 Yrs**		**Total**
Time deposits ≤ $250,000	$	27,129	$	13,051	$	63,435	$	18,527	$	4	$	122,146
Time deposits > $250,000		15,858		4,687		23,107		7,151		-		50,803
Total	$	42,987	$	17,738	$	86,542	$	25,678	$	4	$	172,949

December 31, 2017:	≤ 3 Mths	3-6 Mths	6 Mths-1 Yr	1-3 Yrs	> 3 Yrs	Total
Time deposits ≤ $250,000	$ 10,190	$ 4,544	$ 59,880	$ 42,969	$ 244	$ 117,827
Time deposits > $250,000	6,036	-	17,898	73,346	-	97,280
Total	$ 16,226	$ 4,544	$ 77,778	$ 116,315	$ 244	$ 215,107

The above schedules include brokered time deposits totaling $0 and $5 million as of December 31, 2018 and 2017, respectively.

NOTE 10. CONCENTRATIONS OF RISK

Neither the Company, nor its subsidiaries, is a party to any claim, lawsuit or other legal proceeding that might have a material adverse effect on the consolidated financial statements.

Most of the Company's business activity is with customers located within its primary market area, generally southwest Florida. Approximately 85% of the Company's gross loan portfolio at December 31, 2018 was concentrated in loans secured by real estate. Residential first mortgages and home equity lines of credit represent 26% of gross loans or approximately $288 million. Commercial real estate and construction loans comprise 59% of gross loans or approximately $642 million.

At December 31, 2018, the Company had no significant concentrations of credit risk with any individual counterparty.

At December 31, 2018, deposits and/or repurchase agreements of two customers individually exceeded 5% of total deposits and customer repurchase agreements. These deposits totaled approximately $205 million or 15% of total deposits and repurchase agreements. Management does not view this concentration as a liquidity risk. The interest rate paid on these deposits ranges between 0.0% and 2.50%.

NOTE 11. EMPLOYEE BENEFITS

The Company has established a salary deferral plan under Section 401(k) of the Internal Revenue Code. The plan allows eligible employees to defer up to 100% of their compensation, up to the maximum amount permitted by law. The Company, at its discretion, may match a portion of the employees' contributions. All employees may make contributions under the plan. Employees age 21 and over are eligible to receive matching contributions. Employer contributions vest immediately. Total expenses recorded for the years ended December 31, 2018 and 2017, related to this plan were $598,000 and $517,000, respectively.

NOTE 12. STOCK OPTIONS AND WARRANTS

The Company has two stock option plans, Amended and Restated Officers' and Employee's Stock Option Plan ("Officer Plan") and Amended and Restated Directors' Plan ("Director Plan"), with options outstanding at December 31, 2018 of 1,347,519 and 513,174, respectively. All options granted under the Officer and Director Plans (the "plans") are net-share-settlement options. Upon exercise, the Company shall withhold such numbers of shares of stock then issuable upon exercise of the option as shall have an aggregate fair market value equal to the option price for the shares being acquired upon exercise of the option. In addition to the exercise price, the Company shall withhold from the number of shares issued, the number of shares equal to the minimum statutory withholding for tax in effect at the time. There were a total of 102,096 and 144,362 options exercised during the years ended December 31, 2018 and 2017, respectively. The resulting number of shares issued under the option exercises were 36,200 and 34,877 for the years ended December 31, 2018 and 2017, respectively.

On July 24, 2018, the Company granted 2,500 nonqualified options under its Officer Plan. The options were awarded at an exercise price of $12.54 per share. The options vest equally, by month, over 36 months with a contractual term of ten years.

The Company recognized expense totaling $352,000 and $993,000 in connection with the option grants for the periods ended December 31, 2018 and 2017, respectively. The related tax benefit associated with the option based compensation expense was $89,000 and $374,000 for the same periods, respectively.

The fair value of the 2018 and 2017 option grants were estimated on the grant date using the Black-Sholes option-pricing model with the following assumptions:

	2018	2017	
	July	**January**	**December**
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	13.20%	20.00%	19.20%
Risk-free interest rate	2.83%	2.11%	2.23%
Expected term	5 years	6 years	5 years
Weighted average fair value	$2.36	$1.98	$2.45

The maximum number of shares that may be issued upon options being exercised under both plans shall not exceed 10% of the aggregate of outstanding common and preferred stock, calculated on a net- share-settlement basis. As of December 31, 2018, there was $307,000 in unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the two plans that will be recognized in full by June 2021.

The following table presents the activity of the Company's outstanding stock options, for the periods ended December 31, 2018 and 2017.

	For the Years Ended December 31, 2018		For the Years Ended December 31, 2017	
STOCK OPTIONS:	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	1,960,389	$ 6.46	1,604,343	$ 5.24
Options granted	2,500	12.54	501,908	10.63
Options exercised	(102,096)	7.20	(144,362)	7.41
Options repurchased	-	-	-	-
Options expired/forfeited	(100)	8.00	(1,500)	5.09
Options outstanding, end of period	1,860,693	$ 6.42	1,960,389	$ 6.46
Exercisable at end of period	1,725,430	$ 6.10	1,434,052	$ 6.02
Weighted Average Remaining Contractual Term:		6.2 years		6.9 years

The aggregate intrinsic value of options exercisable for the years ended December 31, 2018 and 2017, was $10.4 and $5.1 million, respectively. The aggregate intrinsic value of options outstanding was $10.6 and $6.1 million for the same periods, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2018 and 2017 was $412,000 and $365,000, respectively. The total grant date fair value of options vested during the same periods was $352,000 and $993,000, respectively.

In accordance with the terms of the original offering prospectus dated July 14, 2009, and as part of the Agreement and Plan of Merger between Panther Community Bank, N.A. and First National, dated April 23, 2009, organizers and founders received organizer warrants to purchase 952,500 shares with a term of 10 years.

The following table presents the activity of the Company's outstanding stock warrants, for the periods ended December 31, 2018 and 2017.

	For the Years Ended December 31,					
	2018			2017		
STOCK WARRANTS:						
Warrants outstanding, beginning of period	952,500	$	10.00	952,500	$	10.00
Warrants exercised	-		-	-		-
Warrants repurchased	-		-	-		-
Warrants expired	-		-	-		-
Warrants outstanding, end of period	952,500	$	10.00	952,500	$	10.00
Exercisable at end of period	952,500	$	10.00	952,500	$	10.00
Weighted Average Remaining Contractual Term:			0.8 years			1.8 years

NOTE 13. RESTRICTIONS ON RETAINED EARNINGS AND REGULATORY MATTERS

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks 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.

During 2013, the Federal Reserve released final United States Basel III regulatory capital rules implementing the global regulatory capital reforms of Basel III and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FDIC and OCC also approved the final rule during 2013. The rule applies to all banking organizations that are currently subject to regulatory capital requirements as well as certain savings and loan holding companies. The rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and makes selected changes to the calculation of risk-weighted assets. The rule became effective January 1, 2015, for most banking organizations, subject to a transition period for several aspects of the rule, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Under the final rules, the minimum capital requirements included common equity Tier I ("CET1") ratio of 4.5%; Tier I capital ratio of 6%; Total capital ratio of 8%; and Leverage ratio of 4%. When fully phased-in on January 1, 2019, the new rules include a capital conservation buffer of 2.5% that is added on top of the minimum risk-based capital ratios. Additionally, the new rules revised "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, with the following requirements for well capitalized status: CET1 ratio of 6.5%; Tier I capital ratio of 8%; Total capital ratio of 10%; and Leverage ratio of 5%.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total, Tier I and Common Equity Tier I capital to risk weighted assets, and of Tier I capital to average assets (as defined by FDIC regulations). The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial condition. Management believes that the Company met all capital adequacy requirements to which it was subject at December 31, 2018.

At December 31, 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I and Tier I leverage ratios as set forth in the table below. Beginning in 2016, an additional conservation buffer was added to the minimum requirements for capital adequacy purposes, subject to a three year phase-in period. The capital conservation buffer will be fully phased in January 1, 2019 at 2.5 percent.

The Company and the Bank's actual capital amounts and ratios are presented in the table below (dollars in thousands). The maximum amount of Tier II capital, contributed via the allowance for loan losses, is limited to 1.25% of gross risk weighted assets. This limitation, where applicable, is reflected in the total capital amounts listed below.

	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Conservation Buffer		To Be Well Capitalized Under Prompt Corrective Action	
As of December 31, 2018:								
TGR Financial, Inc.								
Total capital (to risk weighted assets):	$136,945	11.52 %	$ 95,095	8.00 %	$ 117,382	9.875 %	N/A	N/A
Tier I capital (to risk weighted assets):	127,360	10.71	71,321	6.00	93,609	7.875	N/A	N/A
Common equity tier I capital ratio:	122,434	10.30	53,491	4.50	75,779	6.375	N/A	N/A
Leverage ratio (tier I to avg assets):	127,360	9.19	55,462	4.00	N/A	N/A	N/A	N/A
First Florida Integrity Bank								
Total capital (to risk weighted assets):	$134,028	11.27 %	$ 95,100	8.00 %	$ 117,390	9.875 %	$ 118,876	10.00 %
Tier I capital (to risk weighted assets):	124,443	10.47	71,325	6.00	93,615	7.875	95,100	8.00
Common equity tier I capital ratio:	124,443	10.47	53,494	4.50	75,783	6.375	77,269	6.50
Leverage ratio (tier I to avg assets):	124,443	8.99	55,355	4.00	N/A	N/A	69,194	5.00
As of December 31, 2017:								
TGR Financial, Inc.								
Total capital (to risk weighted assets):	$121,296	11.88 %	$ 81,658	8.00 %	$ 94,417	9.250 %	N/A	N/A
Tier I capital (to risk weighted assets):	111,941	10.97	61,243	6.00	74,002	7.250	N/A	N/A
Common equity tier I capital ratio:	107,048	10.49	45,932	4.50	58,691	5.750	N/A	N/A
Leverage ratio (tier I to avg assets):	111,941	8.61	51,988	4.00	N/A	N/A	N/A	N/A
First Florida Integrity Bank								
Total capital (to risk weighted assets):	$119,273	11.68 %	$ 81,662	8.00 %	$ 94,422	9.250 %	$ 102,077	10.00 %
Tier I capital (to risk weighted assets):	109,918	10.77	61,246	6.00	74,006	7.250	81,662	8.00
Common equity tier I capital ratio:	109,918	10.77	45,935	4.50	58,695	5.750	66,350	6.50
Leverage ratio (tier I to avg assets):	109,918	8.47	51,931	4.00	N/A	N/A	64,914	5.00

NOTE 14. RELATED PARTY TRANSACTIONS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers and their immediate families (commonly referred to as related parties).

Related party loan activity is depicted below (dollars in thousands).

	For the Years Ended December 31, 2018	2017
Beginning balance	$ 1,011	$ 1,100
New originations	-	-
Paydowns	(108)	(89)
Ending balance	$ 903	$ 1,011

NOTE 15. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For additional information regarding the levels of inputs, please refer to Note 1 - Description of Business and Summary of Significant Accounting Policies.

Securities available for sale: Fair value measurements are obtained from an outside pricing service. Fair values are generally estimated using matrix pricing techniques, incorporating observable data that may include reported trades of similar securities, dealer quotes, benchmark yield curves, issuer spreads, new issue data, market consensus prepayment speeds, the bonds' terms and conditions, and other relevant factors. Matrix pricing is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level II inputs).

The following table sets forth the Company's investments which are measured at fair value on a recurring basis as of December 31, 2018 and 2017, respectively (dollars in thousands). Changes in fair value on available for sale securities are recorded through other comprehensive income (loss), net of tax. There were no transfers of investments in or out of Level III for the years ended December 31, 2018 and 2017, respectively.

December 31, 2018: Available for Sale	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total at Fair Value
U.S. Government agencies and government sponsored entities	$ -	$ 42,733	$ -	$ 42,733
Agency mortgage backed securities	-	70,333	-	70,333
Agency collateralized mortgage obligations	-	25,312	-	25,312
State, county and municipal	-	5,540	-	5,540
Corporate bonds	-	22,174	-	22,174
Total	$ -	$ 166,092	$ -	$ 166,092
December 31, 2017:				
Available for Sale				
U.S. Government agencies and government sponsored entities	$ -	$ 33,403	$ -	$ 33,403
Agency mortgage backed securities	-	81,873	-	81,873
Agency collateralized mortgage obligations	-	28,461	-	28,461
State, county and municipal	-	5,651	-	5,651
Corporate bonds	-	20,532	-	20,532
Total	$ -	$ 169,920	$ -	$ 169,920

Nonrecurring Fair Value Measurements

The Company held no non-recurring measurement assets at December 31, 2018 and 2017.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2018 and 2017, respectively, including those assets and liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis, are illustrated in the table below (in thousands). The fair value estimates presented are based on pertinent information available to management at the close of each period. Although management is not aware of any factors that would significantly affect the estimated fair values, they have not been comprehensively revalued for purposes of these financial statements since the statement of financial condition date. Current estimates of fair value may differ significantly from the amounts disclosed.

Cash and cash equivalents: Cash and cash equivalents consist of cash and due from banks and interest bearing balances with banks. The carrying amount approximates fair value based on the short-term nature of these assets.

Federal Reserve Bank and Federal Home Loan Bank stock: These securities are carried at cost, which is believed to approximate fair value, based upon the redemption provisions of the stock. The stock is nonmarketable, and redeemable at par value, subject to certain conditions.

Securities held to maturity: These securities are comprised of corporate bonds and other nonmarketable equity securities. Fair value measurements for held to maturity corporate bonds are obtained from an outside pricing service. Fair values are generally estimated using matrix pricing techniques, incorporating observable data that may include reported trades of similar securities, dealer quotes, benchmark yield curves, issuer spreads, new issue data, market consensus prepayment speeds, the bonds' terms and conditions, and other relevant factors. Matrix pricing is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level II inputs).

Loans: The fair values of residential loans are estimated using discounted cash flow analyses, based upon available market benchmarks for rates and prepayment assumptions. The fair values of commercial and consumer loans are estimated using discounted cash flow analyses, based upon interest rates current offered for loans with similar terms and credit quality.

Cash surrender value of BOLI: The carrying value of bank-owned life insurance ("BOLI") approximates its fair value.

Accrued interest receivable and payable: The carrying amounts of accrued interest approximate their fair values.

Deposits: The fair values of deposit accounts are estimated using a discounted cash flow based on currently effective interest rates for similar types of deposits. These deposits are classified within Level II of the fair value hierarchy.

Customer repurchase agreements: The fair value of these instruments approximates the carrying value of the amounts reported in the Consolidated Statements of Condition given the short-term nature of the liabilities.

Borrowings: Borrowings are comprised of Federal Home Loan Bank ("FHLB") advances. The fair value of FHLB advances is determined by discounting the expected future cash outflows using current market rates for similar borrowings, or Level II inputs.

	Carrying Amount	Fair Value Measurements at December 31, 2018			
Financial assets:		Level I	Level II	Level III	Total
Cash and interest bearing balances due from banks	$ 92,781	$ 90,026	$ 2,755		$ 92,781
Federal Reserve Bank and Federal Home Loan Bank stock	4,445			4,445	4,445
Securities held to maturity	53,492		51,777	456	52,233
Loans, net	1,080,492		1,107,685	8,131	1,115,816
Bank owned life insurance	28,069	28,069			28,069
Accrued interest receivable	4,026		4,026		4,026
Financial liabilities:					
Deposits	1,196,672		1,196,323		1,196,323
Customer repurchase agreements	131,650		131,650		131,650
Accrued interest payable	1,255		1,255		1,255

	Carrying Amount	Fair Value Measurements at December 31, 2017			
Financial assets:		Level I	Level II	Level III	Total
Cash and interest bearing balances due from banks	$ 137,542	$109,064	$ 28,478		$ 137,542
Federal Reserve Bank and Federal Home Loan Bank stock	4,281			4,281	4,281
Securities held to maturity	30,510		30,179	465	30,644
Loans, net	958,955		951,553	10,734	962,287
Bank owned life insurance	27,418	27,418			27,418
Accrued interest receivable	3,348		3,348		3,348
Financial liabilities:					
Deposits	1,129,766		1,129,210		1,129,210
Customer repurchase agreements	114,666		114,666		114,666
Accrued interest payable	1,222		1,222		1,222

NOTE 16. INCOME TAXES

Income taxes for financial reporting purposes differed from the amount computed by applying the statutory federal income tax rate to the pre-tax net loss for the years ended December 31, 2018 and 2017, respectively, are as follows (dollars in thousands).

	2018		2017	
Federal statutory rate times financial statement income	$ 3,938	21.0%	$ 4,578	34.0%
State tax (net of federal benefit)	730	3.9%	420	3.1%
Nontaxable income	(734)	-3.9%	(635)	-4.7%
Stock compensation	(78)	-0.4%	(107)	-0.8%
Impact of tax rate change	-	0.0%	1,151	8.5%
Federal tax credit	-	0.0%	(137)	-1.0%
Other	(131)	-0.7%	70	0.5%
	$ 3,725	19.9%	$ 5,340	39.7%

The components of the provision for income taxes for the years ended December 31, 2018 and 2017 are as follows (dollars in thousands):

	2018	2017
Current		
Federal	$ 1,982	$ 1,265
State	719	407
Current income tax expense	$ 2,701	$ 1,672
Deferred		
Federal	$ 819	$ 2,287
State	205	230
Effect of tax rate reduction	-	1,151
Deferred income tax expense	$ 1,024	$ 3,668
Total	$ 3,725	$ 5,340

The Company had net deferred tax assets totaling $2.7 million and $3.0 million as of December 31, 2018 and 2017, respectively. The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017, respectively, follow:

	2018	2017
Deferred tax assets:		
Net operating loss and credit carryforwards	$ 275	$ 451
Start-up and organizational costs	1,006	1,194
Allowance for loan losses	2,429	2,371
Stock-based compensation	622	543
Net unrealized loss on securities	1,178	514
Net purchase price adjustments	-	25
Other	46	213
Total deferred tax assets	5,556	5,311
Deferred tax liabilities:		
Premises and equipment	(833)	(323)
Prepaid Expenses	(384)	(382)
Deferred loan costs	(1,653)	(1,573)
Net purchase price adjustments	(13)	-
Total deferred tax liabilities	(2,883)	(2,278)
Net deferred tax assets	$ 2,673	$ 3,033

At December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other things, the Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result the Company was required to re-measure, through income tax expense, its deferred tax assets and liabilities using the enacted rate at which we expect them to be recovered or settled. The re-measurement of its net deferred tax asset resulted in additional income tax expense of $1.2 million in 2017. The decrease in income tax expense and the effective tax rate from 2017 to 2018 is a result of this tax reduction.

At December 31, 2018, the Company and its banking subsidiary had federal and Florida net operating losses of approximately $1.1 and $1.0 million, respectively. These net operating losses are subject to the Section 382 limitations for offsetting current and future taxable income. Both federal and Florida net operating losses will begin to expire in 2032.

The Company and its subsidiary file income tax returns in the U.S. Federal jurisdiction and the state of Florida. The Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for tax years prior to 2015.

The Company periodically evaluates our income tax positions based on tax laws and regulations as well as financial reporting requirements. Based on the evaluation, the Company did not have any uncertain tax positions at December 31, 2018.

NOTE 17. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Below presented are the parent company only financial statements as of and for the periods ended December 31, 2018 and 2017.

Condensed Statement of Financial Condition	**As of December 31,**	
(dollars in thousands)	**2018**	**2017**
Assets		
Interest bearing balances with subsidiary	$ 280	$ 708
Equity investment in First Florida Integrity Bank	126,454	113,858
Equity investment in TGR Insurance Company	1,362	1,247
Other assets	1,369	196
Total Assets	$ 129,465	$ 116,009
Liabilities and Stockholders' Equity		
Other liabilities	$ 91	$ 45
Shareholders' equity	129,374	115,964
Total Liabilities and Stockholders' Equity	$ 129,465	$ 116,009

Condensed Statements of Operations	**For the Years Ended December 31,**	
(dollars in thousands)	**2018**	**2017**
Income		
Dividends income from subsidiaries	$ 1,200	$ 550
Interest income from subsidiaries	2	1
Total income	1,202	551
Expenses	780	787
Loss before taxes and undistributed affiliate earnings	422	(236)
Benefit for income taxes	(197)	(283)
Equity in undistributed affiliate earnings	14,410	8,077
Net income	$ 15,029	$ 8,124

Condensed Statements of Cash Flows (dollars in thousands)	As of December 31, 2018	2017
Cash Flows From Operating Activities		
Net income	$ 15,029	$ 8,124
Adjustments to reconcile net income to net cash used in operating activities:		
Stock based compensation expense	352	993
Equity in undistributed affiliate earnings	(14,410)	(8,077)
Net change in other assets	(1,173)	561
Net change in other liabilities	(209)	(970)
Net cash provided by (used in) operating activities	(411)	631
Cash Flows From Financing Activities		
Statutory income tax withholding on net-share-settled options	(17)	(19)
Net cash used in financing activities	(17)	(19)
Net increase (decrease) in cash and cash equivalents	(428)	612
Cash and cash equivalents:		
Beginning of period	708	96
End of period	$ 280	$ 708