

**ANNUAL  
REPORT**  

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**2019**

**NMB FINANCIAL CORPORATION**



Dear Fellow Shareholders,

Over the past five years, New Millennium's focus has been strengthening our values-based culture and aligning our business model to deliver long-term value to our shareholders, customers, employees, and communities. In support of these priorities, we have made significant investments in developing our Team and technology as we seek to grow and develop existing and new relationships, revenue and earnings today, while positioning New Millennium Bank to compete successfully tomorrow and into the future. Producing a consistent long-term return on investment to our shareholders while delivering the products, service, and counsel that create value for our customers remains our ongoing journey and focus.

Since the 2014 recapitalization, we have embarked on a course to transform ourselves from operating primarily in Middlesex County into a diversified community bank with a commercial focus spanning a larger geography, not only to include the Northern New Jersey/New York area, but now to include Atlanta, Georgia and Dallas, Texas. This has led us to open Loan Production offices in these locations over the past 2 years and consideration of retail offices there. This past year we continued our development toward becoming a high-performing diversified community bank. The plan focused on adding additional offices in 2020 in Northern New Jersey (Closter) and New York (Flushing), making enhancements to support productivity and efficiency (Mobile Banking), examining facilities and business lines to maximize our product offering (Credit Cards and Residential Mortgage lending), while implementing new technologies (Mobile check deposit). Ultimately, building shareholder value through improved earnings is our foremost goal.

We feel confidently that our 2019 financial results support our belief that our strategy and actions have set us on a path to sustained performance. Maintaining strong asset quality through disciplined underwriting and a balanced credit culture is a critical component of our plan, as well as expanding our base of core deposits (checking accounts, savings accounts, and money market accounts), providing the most cost-effective source to fund that loan growth.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (COVID-19). In March 2020, the WHO classified the coronavirus as a pandemic, based on the rapid increase in exposure globally.

The full impact of the coronavirus continues to evolve as of the date of this report. The coronavirus (COVID-19) situation has created dislocation across industries and geographies and triggered urgent challenges for many businesses to address. We have taken steps aimed at continuing to serve our market and our customers in this period of intense market volatility and uncertainty. We have and are aligning our work processes with the guidelines of relevant authorities and remain operational. As the situation evolves, our management team will continue to keep updated on our latest analyses, as well as any additional operational changes. We are committed to continuing to serve our customers during this period.

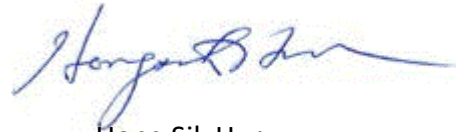
On behalf of everyone at New Millennium, we are grateful to our shareholders, customers, and community for the trust you have placed in us. We are cautious about 2020 and the opportunities to work with you and for you to make our community the best it can be.



Byungkuk Lee  
Chairman of the Board  
NMB Financial Corp



Dong H. Kim  
Chairman of the Board  
New Millennium Bank



Hong Sik Hur  
President and CEO  
New Millennium Bank

# **NMB Financial Corporation**

## **Consolidated Financial Statements**

As of and for the Years Ended

December 31, 2019 and 2018

# **NMB Financial Corporation**

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## **Consolidated Financial Statements**

As of and for the Years Ended December 31, 2019 and 2018

# NMB Financial Corporation

## Contents

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<b>Independent Auditor's Report</b>	3-4
<b>Consolidated Financial Statements</b>	
Balance Sheets as of December 31, 2019 and 2018	5
Statements of Income for the Years Ended December 31, 2019 and 2018	6
Statements of Comprehensive Income for the Years Ended December 31, 2019 and 2018	7
Statements of Stockholders' Equity for the Years Ended December 31, 2019 and 2018	8
Statements of Cash Flows for the Years Ended December 31, 2019 and 2018	9
Notes to Consolidated Financial Statements	10-45



## **Independent Auditor's Report**

The Board of Directors and Stockholders  
NMB Financial Corporation  
Fort Lee, New Jersey

We have audited the accompanying consolidated financial statements of NMB Financial Corporation (the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



***Opinion***

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

*BDO USA, LLP*

April 22, 2020

**NMB Financial Corporation**  
**Consolidated Balance Sheets**  
(in thousands, except share data)

<i>December 31,</i>	2019	2018
<b>Assets</b>		
<b>Cash and Cash Equivalents</b>		
Cash and due from banks	\$ 1,667	\$ 2,000
Interest-bearing deposits	36,313	111,752
<b>Total Cash and Cash Equivalents</b>	<b>37,980</b>	<b>113,752</b>
<b>Interest-Earning Time Deposits</b>	<b>15,681</b>	<b>249</b>
<b>Securities Available-for-Sale</b>	<b>961</b>	<b>1,206</b>
<b>Securities Held-to-Maturity, fair value 2019 \$2,055; 2018 \$2,425</b>	<b>2,039</b>	<b>2,459</b>
<b>Loans Held-for-Sale</b>	<b>712</b>	<b>-</b>
<b>Loans Receivable, net of allowance for loan losses, of \$5,555 for 2019, and \$5,250 for 2018</b>	<b>319,385</b>	<b>286,804</b>
<b>Restricted Stock, at cost</b>	<b>839</b>	<b>816</b>
<b>Premises and Equipment, Net</b>	<b>888</b>	<b>835</b>
<b>Accrued Interest Receivable</b>	<b>931</b>	<b>934</b>
<b>Foreclosed Assets</b>	<b>112</b>	<b>117</b>
<b>Other Assets</b>	<b>9,755</b>	<b>6,673</b>
<b>Total Assets</b>	<b>\$ 389,283</b>	<b>\$ 413,845</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 48,293	\$ 35,587
Interest bearing	285,594	329,914
<b>Total Deposits</b>	<b>333,887</b>	<b>365,501</b>
Borrowings	11,072	11,571
Accrued interest payable	295	331
Other liabilities	4,453	829
<b>Total Liabilities</b>	<b>349,707</b>	<b>378,232</b>
<b>Stockholders' Equity</b>		
Common stock, no par value per share; authorized 20,000,000 shares; issued and outstanding 4,531,889	42,319	42,274
Accumulated deficit	(2,784)	(6,695)
Accumulated other comprehensive income	41	34
<b>Total Stockholders' Equity</b>	<b>39,576</b>	<b>35,613</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 389,283</b>	<b>\$ 413,845</b>

*See accompanying notes to consolidated financial statements.*

**NMB Financial Corporation**  
**Consolidated Statements of Income**  
(in thousands)

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Interest Income</b>		
Loans receivable, including fees	\$ 19,475	\$ 17,139
Securities:		
Taxable	152	203
Tax exempt	9	9
Other	2,587	839
<b>Total Interest Income</b>	<b>22,223</b>	<b>18,190</b>
<b>Interest Expense</b>		
Deposits	8,044	3,822
Borrowings	255	267
<b>Total Interest Expense</b>	<b>8,299</b>	<b>4,089</b>
<b>Net Interest Income, before provision for loan losses</b>	<b>13,924</b>	<b>14,101</b>
<b>Provision for Loan Losses</b>	<b>420</b>	<b>1,371</b>
<b>Net Interest Income</b>	<b>13,504</b>	<b>12,730</b>
<b>Other Income</b>		
Loan servicing fees	484	252
Customer service fees	341	210
Net realized gains on sale of foreclosed real estate	-	168
Net realized gains on sale of loans	1,793	2,963
Other	34	12
<b>Total Other Income</b>	<b>2,652</b>	<b>3,605</b>
<b>Other Expenses</b>		
Salaries and employee benefits	6,017	6,031
Occupancy	1,431	1,414
Loan expense	(109)	6
Data processing and telephone	763	683
Professional fees	569	520
Furniture and equipment	202	244
Other real estate owned	32	49
FDIC assessment	192	167
Advertising	236	290
Other	1,228	1,199
<b>Total Other Expenses</b>	<b>10,561</b>	<b>10,603</b>
<b>Income, before income tax expense</b>	<b>5,595</b>	<b>5,732</b>
<b>Income Tax Expense</b>	<b>1,684</b>	<b>1,725</b>
<b>Net Income</b>	<b>\$ 3,911</b>	<b>\$ 4,007</b>
<b>Earnings Per Share</b>		
Basic weighted-average common shares outstanding	4,531,889	4,531,889
Diluted weighted-average common shares outstanding	4,661,086	4,617,837
Basic net income per common share	\$ 0.86	\$ 0.88
Diluted net income per common share	0.84	0.87

*See accompanying notes to consolidated financial statements.*

**NMB Financial Corporation**  
**Consolidated Statements of Comprehensive Income**  
(in thousands)

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Net Income</b>	<b>\$ 3,911</b>	<b>\$ 4,007</b>
<b>Other Comprehensive Income (Loss)</b>		
Unrealized holding losses on interest-only strip receivable, cash flow hedge arising during the year, net of tax benefits of \$0 and \$0, respectively	-	(6)
Unrealized gains (losses) on available-for-sale securities arising during the year, net of tax (expense) benefits of \$(3) and \$17, respectively	7	(37)
<b>Total Other Comprehensive Income (Loss)</b>	<b>7</b>	<b>(43)</b>
<b>Total Comprehensive Income</b>	<b>\$ 3,918</b>	<b>\$ 3,964</b>

*See accompanying notes to consolidated financial statements.*

**NMB Financial Corporation**  
**Consolidated Statements of Stockholders' Equity**  
(in thousands)

	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance, December 31, 2017</b>	\$ 42,189	\$ (10,702)	\$ 73	\$ 31,560
Stock options expense	85	-	-	85
Net income	-	4,007	-	4,007
Other comprehensive loss	-	-	(43)	(43)
Release of stranded tax effects from change in tax rate	-	-	4	4
<b>Balance, December 31, 2018</b>	42,274	(6,695)	34	35,613
Stock options expense	45	-	-	45
Net income	-	3,911	-	3,911
Other comprehensive income	-	-	7	7
<b>Balance, December 31, 2019</b>	\$ 42,319	\$ (2,784)	\$ 41	\$ 39,576

*See accompanying notes to consolidated financial statements.*

**NMB Financial Corporation**  
**Consolidated Statements of Cash Flows**  
(in thousands)

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,911	\$ 4,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	420	1,371
Provision for depreciation and amortization	210	291
Provision for OREO	5	-
Amortization and provision for servicing assets	778	884
Accretion of discounts on retained SBA loans	(431)	(449)
Net amortization of securities	11	8
Net realized gain on sale of foreclosed real estate	-	(168)
Amortization of net loan origination fees and costs	(225)	(171)
Deferred tax expense	311	383
Loans originated for sale	(25,579)	(37,415)
Proceeds from sales of loans	26,660	47,235
Gains on sales of loans	(1,793)	(2,963)
Stock options expense	45	85
Decrease (increase) in accrued interest receivable and other assets	158	(513)
(Decrease) increase in accrued interest payable and other liabilities	(742)	208
<b>Net Cash Provided by Operating Activities</b>	<b>3,739</b>	<b>12,793</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturities of and principal repayments on securities available-for-sale	255	1,335
Proceeds from maturities of and principal repayments on securities held-to-maturity	409	2,622
Decrease in interest-earning time deposits	(15,432)	6,958
Net increase in loans	(32,439)	(46,293)
Net increase in restricted stock	(23)	(39)
Purchase of premises and equipment	(262)	(33)
Proceeds from sale of foreclosed real estate	94	809
<b>Net Cash Used in Investing Activities</b>	<b>(47,398)</b>	<b>(34,641)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease) increase in deposits	(31,614)	97,713
Repayments of long-term debt	(499)	(489)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(32,113)</b>	<b>97,224</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(75,772)</b>	<b>75,376</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>113,752</b>	<b>38,376</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 37,980</b>	<b>\$ 113,752</b>
<b>Supplementary Cash Flow Information</b>		
Interest paid	\$ 8,335	\$ 3,916
Income taxes paid	1,521	433
<b>Supplementary Schedule of Noncash Investing Activities</b>		
Other real estate acquired in settlement of loans	\$ 94	\$ 758
Right-of-use asset	4,330	-
Lease liability	4,534	-

*See accompanying notes to consolidated financial statements.*

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### 1. Organization and Nature of Operations

Effective April 28, 2016, the stockholders of New Millennium Bank (the Bank) approved a corporate reorganization pursuant to which a holding company, NMB Financial Corporation (the Company), became the sole stockholder of the Bank. Each outstanding share of the common stock of the Bank (par value \$2 per share) was exchanged for one share of common stock of the Company (no par value per share). After consummation, all of the stockholders of the Bank became stockholders of the Company. Stockholders' equity reflects the change in par value per share by reclassifying the previously reported "surplus" to "common stock." The Company is subject to the regulations of the Federal Reserve Bank of New York. The Company is a Bank Holding Company whose sole business is the ownership and operation of the Bank.

The Bank, incorporated on November 3, 1998, was granted a New Jersey state charter on July 12, 1999 and commenced operations on July 19, 1999. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers primarily in Bergen, Middlesex and Somerset Counties, New Jersey and New York City, New York. The Bank's customers are predominantly small and middle-market businesses and professionals. The Bank is subject to regulation of the New Jersey Department of Banking and Insurance (NJDOBI) and the Federal Deposit Insurance Corporation (FDIC). On May 8, 2009, the Bank formed a real estate holding company, New Millennium Bank Realty Company, to hold foreclosed assets.

### 2. Summary of Significant Accounting Policies

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of NMB Financial Corporation and its wholly owned subsidiary, New Millennium Bank and its wholly owned subsidiary, New Millennium Bank Realty Company. All significant intercompany accounts and transactions have been eliminated.

#### *Estimates and Assumptions*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the 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. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets and loan servicing rights, the determination of other-than-temporary impairment on securities, the fair value of financial instruments, and the valuation of deferred tax assets.

#### *Significant Group Concentrations of Credit Risk*

The concentrations of credit by type of loan are set forth in Note 4. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the regional and national economy. Note 3 discusses the types of securities in which the Company invests. The Company does not have any significant concentrations in any one industry or customer.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### *Presentation of Cash Flows*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks and federal funds sold, all with original maturities of 90 days or less. Generally, federal funds are purchased and sold for one-day periods.

### *Interest-Earning Time Deposits*

Interest-earning time deposits are carried at cost. The Company's time deposits mature within one year and are maintained with major financial institutions in the United States.

### *Investment Securities*

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held-to-maturity are those debt securities that the Company has both the intent and ability to hold to maturity, regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method that approximates the interest method over their contractual lives.

Other-than-temporary impairment accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the debt security, and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. The Company did not recognize any other-than-temporary impairment changes during the years ended December 31, 2019 and 2018.

### *Investment in Restricted Stock, at Cost*

Investment in restricted stock, at cost is principally comprised of restricted stock in the Federal Home Loan Bank, which is carried at cost. Federal law requires a member institution of the Federal

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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Home Loan Bank to hold stock according to a predetermined formula. The Federal Home Loan Bank stock was carried at \$802,000 and \$779,000 at December 31, 2019 and 2018, respectively. Restricted stock also includes stock of the Atlantic Community Bankers Bank in the amount of \$37,000 and \$37,000 at December 31, 2019 and 2018, respectively. Management reviews for impairment based on the ultimate recoverability of the cost basis in the restricted stock.

### *Loans Held for Sale*

Loans held for sale are carried at the lower of cost or fair value, as determined on an aggregate basis. Gains and losses on sales of loans held for sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of loans. All sales are made with limited recourse. Loans held for sale were \$712,000 and \$0 at December 31, 2019 and 2018, respectively.

### *Loans Receivable*

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and construction. Consumer loans consist of the following classes: residential real estate, home equity, and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, is generally either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

### *Allowance for Loan Losses*

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses and decreased by credit for loan losses and charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices
- National, regional, and local economic and business conditions, as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans
- Nature and volume of the portfolio and terms of loans
- Experience, ability, and depth of lending management and staff
- Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications
- Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors
- Existence and effect of any concentrations of credit and changes in the level of such concentrations
- Effect of external factors, such as competition and legal and regulatory requirements

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The Company engages in a variety of lending activities, including commercial, residential real estate and consumer/installment transactions. The Company focuses its lending activities on individuals, professionals and small- to medium-sized businesses.

Commercial and industrial loans are also made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans includes the borrower's accounts receivable, inventory and machinery and equipment.

Commercial real estate loans include long-term loan financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans require a loan to value ratio of not greater than 80% at origination. Loan amortizations vary from one year to 25 years and terms typically do not exceed 10 years. Interest rates can be either floating or adjustable periods for up to five years with either a rate reset provision or a balloon payment.

Commercial construction loan terms are one year to 18 months and have a floating rate tied to the Wall Street Journal prime rate. The Company requires a loan-to-value of not less than 75% before, during, and after the construction. At this time, the Bank does not finance any speculative commercial construction projects and only considers construction projects that are pre-leased or owner occupied, with cash flow meeting Bank policy.

Residential real estate loans are secured by the borrower's residential real estate in a first lien position. These loans have varying loan rates depending on the financial condition of the borrower and the loan-to-value ratio. Residential mortgages have terms up to ten years with amortizations varying from 20 to 30 years. The Company also offers home equity lines of credit and home equity loans. Risks associated with loans secured by residential properties are generally lower than commercial loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment.

The Company offers a variety of loans to individuals for personal and household purposes. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal banking agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### *Troubled Debt Restructurings*

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may be modified by means of extending the maturity date of the loan, reducing the interest rate on the loan to a rate that is below market, a combination of rate adjustments and maturity extensions, or by other means, including covenant modifications, forbearances or other concessions. Generally, interest is not accrued on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with the modified terms for a period of at least six months. Interest is accrued on troubled debt restructurings, which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their modified terms. Management evaluates the allowance for loan losses with respect to troubled debt restructurings under the same policy and guidelines as all other loans are evaluated with respect to the allowance for loan losses.

### *Premises and Equipment*

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

	Years
Leasehold improvements	5-20
Furniture, fixtures and equipment	3-10
Equipment	3-20

### *Foreclosed Assets*

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. Any gain or loss upon the sale of foreclosed assets is charged to operations as incurred. The Company had foreclosed assets of \$112,000 and \$117,000 as of December 31, 2019 and 2018, respectively.

### *Transfers of Financial Assets*

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### *Loan Servicing Rights*

When loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in net gain on sales of loans. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

The Company subsequently measures servicing rights using the amortization method. It evaluates servicing rights for impairment at each reporting date and reports impairment charges and subsequent recoveries in earnings. Such changes are included with loan servicing fees on the income statement.

Servicing fee income, which is reported on the income statement as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled approximately \$1,262,000 and \$1,136,000 for the years ended December 31, 2019 and 2018, respectively. Late fees and ancillary fees related to loan servicing are not material.

### *Advertising Costs*

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$236,000 and \$290,000 for the years ended December 31, 2019 and 2018, respectively.

### *Income Taxes*

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

The Company follows the recent accounting guidance related to the accounting for uncertainty in income taxes. Under the “more likely than not” threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2019 and 2018, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2016.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### *Off-Balance Sheet Financial Instruments*

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

### *Earnings Per Share*

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

The following table presents the potential common shares related solely to the Company's outstanding stock options.

<i>December 31,</i>		<b>2019</b>		<b>2018</b>
Net income	\$	<b>3,911</b>	\$	4,007
Weighted-average shares outstanding		<b>4,531,889</b>		4,531,889
Dilutive effect of potential common shares, stock options		<b>129,197</b>		85,948
<b>Diluted Weighted-Average Common Shares Outstanding</b>		<b>4,661,086</b>		4,617,837
Basic net income per common share	\$	<b>0.86</b>	\$	0.88
Diluted net income per common share		<b>0.84</b>		0.87

For the years ended December 31, 2019 and 2018, 60,000 and 75,000 stock options, respectively, were anti-dilutive.

### *Stock Compensation Plans*

The Company has stock option plans in place for employees and directors. The Company recognizes the cost of services received in exchange for stock option awards based on the grant date fair value of the award. The cost is recognized over the vesting period. A Black-Scholes model is used to estimate the fair value of stock options.

### *Reclassification of Comparative Amounts*

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no effect on stockholders' equity or net income.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### *Recently Adopted Accounting Standards*

#### *Lease Adoption*

In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)." Under the new guidance, lessees are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018 for all public business entities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases," which was issued to clarify and correct unintended application of the guidance in ASU 2016-02 (Topic 842). The amendments in this ASU affect aspects of the guidance issued in ASU 2016-02 and provide clarification to related topics, such as 1) rate implicit in the lease; 2) reassessment of leases; 3) transition guidance; and 4) impairment of net investment in the lease. In July 2018, the FASB also issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements," which provides guidance related to comparative reporting requirements for initial adoption and separating lease and non-lease components. Currently, entities are required to adopt the new standard utilizing the modified retrospective approach. This amendment provides entities with an additional transition method that allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Currently, ASU 2016-02 provides a practical expedient to lessees to allow them to not separate non-lease components from lease components. For entities that early adopted Topic 842, the amendments in these ASUs are effective upon issuance. The Company adopted both ASU No. 2016-02 and ASU No. 2018-11 effective January 1, 2019 and elected to apply the guidance as of the beginning of the period of adoption (January 1, 2019) and not restate comparative periods. Additionally, the Company elected to adopt the practical expedient for the use of hindsight to determine right-of-use asset and lease liability for the Company's lease with a renewal option and to assess impairment of the right-of-use asset. Adoption of the standard did not result in material changes to the Company's consolidated results of operations. The Company's adoption of the ASU resulted in a right-of-use asset and lease liability of approximately \$4.3 million and \$4.5 million, respectively, during the period of adoption. The impact of the adoption on the Company's operating results was not significant.

#### *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2016-1, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," among other things: (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (iv) requires public business entities to use the exit price notion when

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 was adopted by the Company effective January 1, 2018 and did not have a significant impact on the Company's consolidated financial statements.

### *Revenue from Contracts with Customers (Topic 606)*

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. This standard is effective for the Company on January 1, 2018. The Company's revenue is comprised of net interest income on financial assets and financial liabilities, and gains on sale of loans that are outside the scope of ASU 2014-09, and service and transaction fees, which are subject to ASU 2014-09 and are recorded in non-interest income. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

### *Income Statement (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*

Under ASU 2018-02, "Income Statement (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," entities are allowed, but not required, to reclassify from Accumulated Other Comprehensive Income (AOCI) to retained earnings stranded tax effects resulting from the new federal corporate income tax rate of the Tax Cuts and Jobs Act (the Act). The reclassification could include other stranded tax effects that related to the Act but did not directly relate to the change in the federal rate. Tax effects that are stranded in AOCI for other reasons may not be reclassified. Entities also will have an option to adopt the standard retrospectively or in the period of adoption. ASU 2018-02 was adopted by the Company effective January 1, 2018 and approximately \$4,000 was released from AOCI.

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# NMB Financial Corporation

## Notes to Consolidated Financial Statements

### 3. Investment Securities

The amortized cost and approximate fair value of securities are summarized as follows (in thousands):

#### *December 31, 2019*

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available-for-Sale</b>				
U.S. government-sponsored enterprises, residential mortgage-backed securities	\$ 903	\$ 58	\$ -	\$ 961
<b>Total Securities Available-for-Sale</b>	<b>\$ 903</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$ 961</b>
<b>Securities Held-to-Maturity</b>				
State and municipal securities	\$ 231	\$ 5	\$ -	\$ 236
Corporate securities	247	-	(13)	234
U.S. government-sponsored enterprises, residential mortgage-backed securities	1,561	37	(13)	1,585
<b>Total Securities Held-to-Maturity</b>	<b>\$ 2,039</b>	<b>\$ 42</b>	<b>\$ (26)</b>	<b>\$ 2,055</b>

#### *December 31, 2018*

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available-for-Sale</b>				
U.S. government-sponsored enterprises, residential mortgage-backed securities	\$ 1,158	\$ 48	\$ -	\$ 1,206
<b>Total Securities Available-for-Sale</b>	<b>\$ 1,158</b>	<b>\$ 48</b>	<b>\$ -</b>	<b>\$ 1,206</b>
<b>Securities Held-to-Maturity</b>				
State and municipal securities	\$ 231	\$ 8	\$ -	\$ 239
Corporate securities	247	-	(11)	236
U.S. government-sponsored enterprises, residential mortgage-backed securities	1,981	23	(54)	1,950
<b>Total Securities Held-to-Maturity</b>	<b>\$ 2,459</b>	<b>\$ 31</b>	<b>\$ (65)</b>	<b>\$ 2,425</b>

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

### December 31, 2019

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity:						
U.S. government-sponsored enterprises, residential mortgage-backed securities	\$ -	\$ -	\$ 946	\$ 13	\$ 946	\$ 13
Corporate securities	-	-	234	13	234	13
	\$ -	\$ -	\$ 1,180	\$ 26	\$ 1,180	\$ 26

### December 31, 2018

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held-to-maturity:						
U.S. government-sponsored enterprises, residential mortgage-backed securities	\$ -	\$ -	\$ 1,131	\$ 54	\$ 1,131	\$ 54
Corporate securities	-	-	236	11	236	11
	\$ -	\$ -	\$ 1,367	\$ 65	\$ 1,367	\$ 65

At December 31, 2019 and 2018, respectively, the Company had four securities in an unrealized loss position for 12 months or more. U.S. government-sponsored enterprises, residential mortgage-backed securities and corporate securities unrealized losses are due to changing interest rates and are considered temporary because of acceptable financial condition and results of operations on each security and the repayment sources of principal and interest are government backed. Corporate debt securities consist of individual trust preferred and debt securities issued by large financial institutions. The decline in fair value is due in large part to the widening of interest spreads on securities and rating agency downgrades. The ratings on these securities range from A to BBB. None of the issuers have defaulted on interest payments. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2019 and 2018. The Bank does not intend to sell these securities prior to recovery, and it is more likely than not that the Bank will not have to sell these debt securities prior to recovery.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

The amortized cost and carrying value of securities are shown below by contractual maturity. Actual maturities may differ from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

*December 31, 2019*

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	231	236	-	-
Due after five years through ten years	247	234	-	-
Due after ten years	-	-	-	-
U.S. government-sponsored enterprises mortgage- backed securities	1,561	1,585	903	961
<b>Total</b>	<b>\$ 2,039</b>	<b>\$ 2,055</b>	<b>\$ 903</b>	<b>\$ 961</b>

There were no sales of securities in 2019 and 2018.

Securities with a carrying value of approximately \$2,522,000 and \$3,185,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required or permitted by applicable laws and regulations.

#### 4. Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows (in thousands):

<i>December 31,</i>	2019	2018
Commercial and industrial	\$ 63,827	\$ 50,013
Commercial real estate	209,316	189,480
Construction	3,671	4,887
Residential real estate	49,344	48,208
Home equity	1,211	1,963
Consumer, other	102	544
	<b>327,471</b>	<b>295,095</b>
Less:		
Allowance for loan losses	(5,555)	(5,250)
Unearned net loan origination fees and costs	(2,531)	(3,041)
	<b>\$ 319,385</b>	<b>\$ 286,804</b>

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

The following table presents changes in the allowance for loan losses (in thousands):

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Balance, beginning of year</b>	\$ <b>5,250</b>	\$ <b>4,450</b>
Provision for loan losses	<b>420</b>	1,371
Loans charged off	<b>(296)</b>	(736)
Recoveries	<b>181</b>	165
<b>Balance, end of year</b>	<b>\$ 5,555</b>	<b>\$ 5,250</b>

The following tables summarize the activity in the allowance for loan losses by loan class, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class (in thousands):

### *December 31, 2019*

	Allowance for Loan Losses							
	Beginning Balance	Charge- offs	Recoveries	Provisions (Credit)	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	
Commercial and industrial	\$ 831	\$ 50	\$ 64	\$ 227	\$ 1,072	\$ 408	\$ 664	
Commercial real estate	2,937	13	92	434	3,450	26	3,424	
Construction	102	-	-	(45)	57	-	57	
Residential real estate	1,137	-	-	(383)	754	-	754	
Home equity	-	233	25	208	-	-	-	
Consumer, other	1	-	-	-	1	-	1	
Unallocated	242	-	-	(21)	221	-	221	
	<b>\$ 5,250</b>	<b>\$ 296</b>	<b>\$ 181</b>	<b>\$ 420</b>	<b>\$ 5,555</b>	<b>\$ 434</b>	<b>\$ 5,121</b>	

### *December 31, 2019*

	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	\$ 63,827	\$ 1,395	\$ 62,432
Commercial real estate	209,316	1,188	208,128
Construction	3,671	-	3,671
Residential real estate	49,344	2,056	47,288
Home equity	1,211	86	1,125
Consumer, other	102	-	102
	<b>\$ 327,471</b>	<b>\$ 4,725</b>	<b>\$ 322,746</b>

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

December 31, 2018

	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	\$ 885	\$ 352	\$ 59	\$ 239	\$ 831	\$ 1	\$ 830
Commercial real estate	2,677	372	105	527	2,937	-	2,937
Construction	115	-	-	(13)	102	-	102
Residential real estate	755	-	-	382	1,137	-	1,137
Home equity	12	12	1	(1)	-	-	-
Consumer, other	6	-	-	(5)	1	-	1
Unallocated	-	-	-	242	242	-	242
	\$ 4,450	\$ 736	\$ 165	\$ 1,371	\$ 5,250	\$ 1	\$ 5,249

December 31, 2018

	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	\$ 50,013	\$ 113	\$ 49,900
Commercial real estate	189,480	1,289	188,191
Construction	4,887	-	4,887
Residential real estate	48,208	43	48,165
Home equity	1,963	29	1,934
Consumer, other	544	-	544
	\$ 295,095	\$ 1,474	\$ 293,621

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system (in thousands):

December 31, 2019

	Commercial and Industrial	Commercial Real Estate	Construction Loans
Pass	\$ 61,686	\$ 199,170	\$ 3,237
Special mention	746	5,166	434
Substandard	1,395	4,980	-
	\$ 63,827	\$ 209,316	\$ 3,671

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

*December 31, 2018*

	Commercial and Industrial	Commercial Real Estate	Construction Loans
Pass	\$ 48,757	\$ 181,504	\$ 4,692
Special mention	1,143	2,478	195
Substandard	113	5,498	-
	<b>\$ 50,013</b>	<b>\$ 189,480</b>	<b>\$ 4,887</b>

There were no loans classified as doubtful or loss as of December 31, 2019.

*December 31, 2019*

	Residential Real Estate	Home Equity	Consumer, Other
Consumer credit exposure Credit risk profile based on payment activity			
Performing	\$ 47,288	\$ 1,125	\$ 102
Nonperforming	2,056	86	-
	<b>\$ 49,344</b>	<b>\$ 1,211</b>	<b>\$ 102</b>

*December 31, 2018*

	Residential Real Estate	Home Equity	Consumer, Other
Consumer credit exposure Credit risk profile based on payment activity			
Performing	\$ 48,165	\$ 1,934	\$ 544
Nonperforming	43	29	-
	<b>\$ 48,208</b>	<b>\$ 1,963</b>	<b>\$ 544</b>

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# NMB Financial Corporation

## Notes to Consolidated Financial Statements

The following tables summarize information in regard to impaired loans by loan portfolio class (in thousands):

### *December 31, 2019*

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial loans	\$ 713	\$ 756	\$ -	\$ 227	-
Commercial real estate	976	1,234	-	943	-
Construction	-	-	-	-	-
Residential real estate	2,056	2,056	-	435	-
Home equity	86	86	-	52	-
With an allowance recorded:					
Commercial and industrial loans	682	682	408	136	-
Commercial real estate	212	212	26	43	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Home equity	-	-	-	-	-
<b>Total</b>					
Commercial and industrial loans	1,395	1,438	408	363	-
Commercial real estate	1,188	1,446	26	986	-
Construction	-	-	-	-	-
Residential real estate	2,056	2,056	-	435	-
Home equity	86	86	-	52	-

### *December 31, 2018*

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial loans	\$ 112	\$ 163	\$ -	\$ 123	-
Commercial real estate	1,289	1,583	-	1,253	-
Construction	-	-	-	-	-
Residential real estate	43	43	-	62	-
Home equity	29	29	-	31	-
With an allowance recorded:					
Commercial and industrial loans	1	1	1	2	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Home equity	-	-	-	-	-
<b>Total</b>					
Commercial and industrial loans	113	164	1	125	-
Commercial real estate	1,289	1,583	-	1,253	-
Construction	-	-	-	-	-
Residential real estate	43	43	-	62	-
Home equity	29	29	-	31	-

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable, as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status (in thousands):

### December 31, 2019

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
Commercial and industrial loans	\$ -	\$ 35	\$ 713	\$ 748	\$ 63,079	\$ 63,827	\$ -
Commercial real estate	450	-	349	799	208,517	209,316	-
Construction	-	-	-	-	3,671	3,671	-
Residential real estate	523	362	2,056	2,941	46,403	49,344	-
Home equity	122	-	-	122	1,089	1,211	-
Consumer, other	-	-	-	-	102	102	-
	\$ 1,095	\$ 397	\$ 3,118	\$ 4,610	\$ 322,861	\$ 327,471	\$ -

### December 31, 2018

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
Commercial and industrial loans	\$ -	\$ 17	\$ 100	\$ 117	\$ 49,896	\$ 50,013	\$ -
Commercial real estate	-	316	1,283	1,599	187,881	189,480	-
Construction	-	-	-	-	4,887	4,887	-
Residential real estate	-	-	43	43	48,165	48,208	-
Home equity	65	-	-	65	1,898	1,963	-
Consumer, other	-	-	-	-	544	544	-
	\$ 65	\$ 333	\$ 1,426	\$ 1,824	\$ 293,271	\$ 295,095	\$ -

The following table presents nonaccrual loans by classes of the loan portfolio (in thousands):

December 31,	2019	2018
Commercial and industrial	\$ 1,395	\$ 113
Commercial real estate	1,188	1,289
Construction	-	-
Residential real estate	2,056	43
Home equity	86	29
	\$ 4,725	\$ 1,474

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider, resulting in a modified loan, which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest-only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The Bank had \$471,000 and \$493,000 in total performing TDRs as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Bank did not have any loans classified as TDRs that subsequently defaulted. During the years ended December 31, 2019 and 2018, the Bank did not have any new modifications considered to be TDRs.

### 5. Loan Servicing Rights

The Bank originated and sold loans guaranteed by the Small Business Administration (SBA). The Company retained the unguaranteed portion of the loan and the servicing on the loans sold and received a fee based upon the principal balance outstanding. Loans serviced totaled \$137,677,000 and \$135,018,000 at December 31, 2019 and 2018, respectively.

Whether sold or not, the guarantee associated with SBA loans is contingent upon the Company following specific policies and procedures set by the SBA. This creates off-balance-sheet risk should the SBA determine the Company is not in compliance with these policies and procedures.

The amortization of loan servicing asset is netted against loan servicing fee income in the consolidated statements of income. The Company obtains updated fair values from an independent third party, and to the extent that the carrying value exceeds fair value, the adjustments to fair value are presented in the loan servicing fees in the consolidated statements of income.

During the years ended December 31, 2019 and 2018, the Company amortized \$812,000 and \$601,000, respectively, of servicing assets. The balance of loan servicing assets outstanding was \$3,057,000 and \$3,272,000, and the related valuation allowance was \$313,000 and \$347,000 at December 31, 2019 and 2018, respectively.

The following table presents changes in the servicing assets, net of valuation allowance:

<i>Year ended December 31,</i>		<b>2019</b>		<b>2018</b>
<b>Balance</b> , beginning of year	\$	<b>2,925</b>	\$	2,585
Additions		<b>597</b>		1,224
Amortization		<b>(812)</b>		(601)
Recovery/provision for valuation allowance of servicing assets		<b>34</b>		(283)
<b>Balance</b> , end of year	\$	<b>2,744</b>	\$	2,925

For the purposes of measuring impairment, servicing assets were stratified into commercial and residential and fair value was determined. Refer to Note 19 for valuation assumptions used to determine fair value at year-end.

**NMB Financial Corporation**  
**Notes to Consolidated Financial Statements**

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**6. Premises and Equipment**

The components of premises and equipment are as follows (in thousands):

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Leasehold improvements	\$ 734	\$ 734
Furniture and fixtures	466	464
Equipment	2,531	2,270
	<b>3,731</b>	<b>3,468</b>
Less: accumulated depreciation and amortization	<b>(2,843)</b>	<b>(2,633)</b>
	<b>\$ 888</b>	<b>\$ 835</b>

Depreciation and amortization expense was \$210,000 and \$291,000 for the years ended December 31, 2019 and 2018, respectively.

**7. Deposits**

The components of deposits were as follows (in thousands):

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Demand, non-interest bearing	\$ 48,293	\$ 35,587
Demand, interest bearing	13,108	12,941
Savings	32,257	35,523
Time, less than \$100	55,539	57,618
Time, \$100 to \$250	90,006	114,055
Time, over \$250	94,684	109,777
	<b>\$ 333,887</b>	<b>\$ 365,501</b>

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

<i>Year ending December 31,</i>	
2020	\$ 197,592
2021	25,574
2022	5,563
2023	2,288
2024	9,212
	<b>\$ 240,229</b>

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

### 8. Borrowings

Borrowings consisted of the following long-term advances with the Federal Home Loan Bank (FHLB) (dollars in thousands):

*December 31,*

Maturity Date	Interest Rate (%)	2019	2018
December 29, 2021	2.000 \$	1,072 \$	1,571
March 28, 2022	2.290	5,000	5,000
April 4, 2022	2.230	5,000	5,000
	\$	11,072 \$	11,571

Contractual principal repayment terms of borrowings in years subsequent to December 31, 2019 are as follows (in thousands):

*Year ending December 31,*

2020	\$	509
2021		519
2022		10,044
	\$	11,072

The Company has reserve lines totaling \$12 million at three of our correspondent banks as of December 31, 2019 and December 31, 2018. During 2019, the Company secured a line of credit at FHLB NY, collateralized by residential real estate loans. The Company has a line of credit in the amount of \$13,242,000 as of December 31, 2019. The Company does not have any loans outstanding against the lines as of December 31, 2019 and December 31, 2018.

### 9. Lease Commitments and Total Rental Expense

The Company has historically entered into a number of lease arrangements under which we are the lessee. Specifically, all of our leases for our branches and our corporate headquarters facility are subject to operating leases. In addition, we have elected the short-term lease practical expedient related to leases of various equipment used in our locations. As of December 31, 2019, we have entered into two leases for additional branch locations, which have not yet commenced. All of our leases include optional renewal periods. Upon opening a new branch location, we typically install brand-specific leasehold improvements with a useful life of ten years. To the extent that the initial lease term of the related lease is less than the useful life of the leasehold improvements, we conclude that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term, and the related payments are reflected in the right-of-use (ROU) asset and lease liability. Generally, we do not consider any additional renewal periods to be reasonably certain of being exercised, as comparable locations could generally be identified within the same trade areas for comparable lease rates.

All of our leases are fixed rental payments. While the majority of our leases are gross leases, we also have a number of leases in which we make separate payments to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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portion of the common area maintenance associated with the property. We have elected the practical expedient not to separate lease and non-lease components for all of our building leases.

As of December 31, 2019 and 2018, the weighted-average remaining lease term for all operating leases is 6.02 years and 7.02 years, respectively. Because the rate implicit in the lease is not apparent, we utilize as the discount rate our incremental borrowing rate (FHLB collateralized borrowing rate for similar term) at the later of the adoption date or lease commencement date. The weighted-average discount rate associated with operating leases in 2019 is 2.78%.

As of December 31, 2019, amounts recognized as right-of-use assets related to operating leases of approximately \$3,492,000 are included in other assets, in the accompanying consolidated balance sheets, while related lease liabilities of approximately \$3,711,000 are included in other liabilities.

The total rental expense, including common area maintenance changes, included in the consolidated statements of income for the years ended December 31, 2019 and 2018 is approximately \$1,012,000 and \$1,187,000, respectively.

The future payments due under operating leases as of December 31, 2019 are as follows:

*Year ending December 31,*

2020	\$	682
2021		652
2022		677
2023		703
Thereafter		1,346
<b>Total</b>		<b>4,060</b>
Less: imputed interest		(349)
<b>Lease Liabilities</b>	<b>\$</b>	<b>3,711</b>

### 10. Comprehensive Income

U.S. GAAP requires that recognized revenue, expenses, gains and losses be included in net income or loss. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, and the effective portion of the gain or loss on derivative instruments qualifying as cash flow hedges, are reported as components of comprehensive income.

The components of accumulated other comprehensive income and related tax effects are as follows (in thousands):

<i>December 31,</i>		2019	2018
Unrealized gains on available-for-sale securities	\$	58	\$ 48
<b>Net Unrealized Gains</b>		<b>58</b>	<b>48</b>
Tax effect		(17)	(14)
<b>Net of Tax Amount</b>	<b>\$</b>	<b>41</b>	<b>\$ 34</b>

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### 11. Stockholders' Equity and Stock Option Plans

In 2017, the Bank raised approximately \$5,420,000, net of expenses represented by 903,270 shares at \$6.00 per share.

In 2014, the stockholders approved the 2014 Stock Option Plan - A, which may grant 540,000 options under the plan. Plan A may issue Incentive Stock Options (ISO) to employees of the Bank and 180,000 Non-qualified Stock Options (NQO) to nonemployee directors. The plan was approved by the NJDOBI in 2015. There are 490,000 options granted under the plan, with 50,000 remaining.

In 2014, the stockholders approved the 2014 Stock Option Plan - B, which may grant 180,000 options under the plan. Plan B may issue grants for NQOs to nonemployee directors. This plan was approved by the NJDOBI in 2015. There are 153,000 options granted under the plan with 27,000 remaining.

The Stock Option Plans are administered by the Compensation Committee. The Committee Members have the authority to determine (i) the individuals to whom and the time at which options are to be granted; (ii) whether such options are to be ISOs or NQOs (subject to requirements of the Internal Revenue Code); (iii) the terms and conditions of any option granted, including any vesting period; (iv) the exercise price; and (v) the administration of the Stock Option Plans. There are 77,000 options available under the Stock Option Plans as of December 31, 2019.

Options granted pursuant to the Stock Option Plans must be exercisable at a price greater than or equal to the par value of the common stock, but in no event may the option price be lower than (i) in the case of the ISO, the fair market value of the shares subject to the ISO on the date of grant; (ii) in the case of a NQO issued to a director as compensation for serving as a director or as a member of the advisory boards of the Bank, the fair market value of the shares subject to the NQO on the date of grant, and (iii) in the case of a NQO issued to a grantee as employment compensation, 85% of the fair market value of the shares subject to the NQO on the date of grant. In addition, no ISO may be granted to an employee who owns common stock possessing more than 10% of the total combined voting power of the Bank's common stock, unless the price is at least 110% of the fair market value (on the date of grant) of the common stock.

Total stock-based compensation related to stock options was \$45,000 and \$85,000 for the years ended December 31, 2019 and 2018, respectively.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

The following summarizes changes in stock options outstanding under the plans (dollars in thousands):

*Year ended December 31,*

	2019			2018		
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
<b>Outstanding,</b>						
beginning of year	658,000	\$ 5.28		608,000	\$ 5.00	
Granted	-	-		75,000	7.49	
Forfeited	(15,000)	7.39		(25,000)	5.00	
<b>Outstanding,</b>						
end of year	643,000	\$ 5.23	5.7	658,000	\$ 5.28	6.8
<b>Exercisable,</b>						
end of year	607,363	\$ 5.28	6.3	549,860	\$ 5.05	8.1

Stock options outstanding at December 31, 2019 and 2018 are exercisable at \$5.23 per share and \$5.28 per share, respectively. There were no options granted during the year ended December 31, 2019. The weighted-average grant date fair value of options granted during the year ended December 31, 2018 was \$1.04.

At December 31, 2019 and 2018, there was no intrinsic value for options outstanding and exercisable.

At December 31, 2019, unrecognized share-based compensation expense related to nonvested options amounted to approximately \$44,000. This amount is expected to be recognized over a weighted-average period of two years.

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option-pricing model. The risk-free interest rate for the expected term of the stock option award is based on the U.S. Treasury yield curve in effect at the time of the grant. Average volatility is based on the historical volatility of common stock. The average expected life represents the period of time that stock option grants are expected to be outstanding and are based on historical data.

The following assumptions were used to estimate the fair value of the options granted:

*December 31, 2018*

Weighted-average risk-free interest rate	2.88%
Weighted-average volatility	17.30%
Expected dividend yield	-
Weighted-average expected life (years)	7

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

### 12. Employee Benefit Plan

The Company has a 401(k) defined contribution salary deferral plan that covers substantially all full-time employees. The plan provides for contributions by the Company in such amounts as its Board of Directors shall determine. There were \$60,000 and \$0 charged to expense for the years ended December 31, 2019 and 2018, respectively.

### 13. Other Operating Expenses

Other operating expenses include the following significant items:

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
Operating insurance	\$ 86	\$ 93
Directors' fees	313	234
Printing and supplies	110	108
Software licensing fees	156	143
Travel and entertainment	192	209
Other	371	412
	<b>\$ 1,228</b>	<b>\$ 1,199</b>

### 14. Income Taxes

The components of income tax expense are as follows (in thousands):

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
Current:		
Federal	\$ 1,240	\$ 1,146
State	133	196
	<b>1,373</b>	<b>1,342</b>
Deferred:		
Federal	(200)	(139)
State	511	522
	<b>311</b>	<b>383</b>
	<b>\$ 1,684</b>	<b>\$ 1,725</b>

A reconciliation of the statutory federal income tax at a rate of 21% and 34%, respectively, to the income tax expense included in the consolidated statements of income is as follows (in thousands):

<i>Year ended December 31,</i>	<b>2019</b>	<b>2018</b>
Federal tax expense at statutory rate	\$ 1,175	\$ 1,204
Tax-exempt interest	(2)	(2)
Meals and entertainment	14	15
State income tax, net of federal income tax effect	508	521
Other	(11)	(13)
	<b>\$ 1,684</b>	<b>\$ 1,725</b>

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

Net deferred tax assets (liabilities) consisted of the following components (in thousands):

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Deferred tax assets:		
Allowance for loan losses	\$ 1,339	\$ 1,221
Nonaccrual interest	120	90
Other real estate owned	8	-
Net operating loss carryforwards	906	1,396
Lease liability	1,043	-
Premises and equipment	(2)	(2)
Other	164	164
<b>Total Deferred Tax Assets</b>	<b>3,578</b>	<b>2,869</b>
Deferred tax liabilities:		
Prepaid expenses	(86)	(109)
Unrealized gains on securities available-for-sale	(18)	(15)
Right-of-use asset	(1,035)	-
SBA servicing rights	(2)	(2)
<b>Total Deferred Tax Liabilities</b>	<b>(1,141)</b>	<b>(126)</b>
<b>Net Deferred Tax Asset</b>	<b>\$ 2,437</b>	<b>\$ 2,743</b>

The net deferred tax assets as of December 31, 2019 and 2018 are included in other assets on the Company's consolidated balance sheets.

The Company has net operating loss carryforwards available for federal income tax purposes of approximately \$3.3 million, which will begin to expire in 2031 and, for state purposes, of approximately \$2.9 million, which will begin to expire in 2031.

### 15. Transactions with Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, officers, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties). At December 31, 2019 and 2018, these persons were indebted to the Company for loans totaling \$3,104,000 and \$5,727,000, respectively. During 2019 and 2018, \$1,500,000 and \$1,000,000, respectively, was disbursed on a one-year commercial line of credit, for which payments in the amount of \$17,000 and \$24,000 were applied to interest only in 2019 and 2018, respectively, as this is the ordinary course of business with construction lines of credit.

As of December 31, 2019 and 2018, deposits from directors, officers, and their affiliates amounted to approximately \$24.0 million and \$20.8 million, respectively.

### 16. Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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

A summary of the Company's financial instrument commitments is as follows:

<i>December 31,</i>		<b>2019</b>		<b>2018</b>
Commitments to grant loans	\$	<b>3,072</b>	\$	2,463
Unfunded commitments under lines of credit		<b>22,098</b>		20,292
Standby letter of credit		<b>1,109</b>		705

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

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2019 and 2018 for guarantees under standby letters of credit issued is not material.

### 17. Regulatory Matters

The Bank is required to maintain cash reserve balances in vault cash and with the Federal Reserve Bank. The required reserve balance was \$271,000 at December 31, 2019 and \$240,000 at December 31, 2018.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Total, Tier I capital, and Common Tier 1 (as defined in the regulations) to risk-weighted assets and of Tier I capital to average assets. To be

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Common Tier 1, and Tier 1 leverage ratios as set forth in the table (dollar amounts in thousands).

### December 31, 2019

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 42,393	13.03%	\$ ≥26,059	≥8.00%	\$ ≥32,574	≥10.00%
Tier 1 capital (to risk-weighted assets)	38,308	11.77	19,544	6.00	26,059	8.00
Common Equity Tier 1 (to risk-weighted assets)	38,308	11.77	14,658	4.50	21,173	6.50
Tier 1 capital (to average assets)	38,308	9.01	16,982	4.00	21,227	5.00

### December 31, 2018

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 37,379	13.12%	\$ ≥22,798	≥8.00%	\$ ≥28,498	≥10.00%
Tier 1 capital (to risk-weighted assets)	33,796	11.86	17,099	6.00	22,798	8.00
Common Equity Tier 1 (to risk-weighted assets)	33,796	11.86	12,824	4.50	18,524	6.50
Tier 1 capital (to average assets)	33,796	9.42	14,346	4.00	17,932	5.00

At December 31, 2019, the Bank maintained capital levels that met or exceeded the levels required to be considered 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. The capital position of the Company does not differ significantly from the Bank's capital position.

Information presented reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings and other factors. The rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets, in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement started to be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year until fully phased-in in January 2019, when the full capital conservation buffer requirement is effective. On January 1, 2019, the capital conservation buffer is fully phased-in at 2.50%.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### 18. Fair Value Measurements and Disclosures

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price 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. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value.

*Level 1* - Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

*Level 2* - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

*Level 3* - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

***December 31, 2019***

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U.S. government-sponsored enterprises mortgage-backed securities	\$ 961	\$ -	\$ 961	\$ -
	\$ 961	\$ -	\$ 961	\$ -

***December 31, 2018***

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U.S. government-sponsored enterprises mortgage-backed securities	\$ 1,206	\$ -	\$ 1,206	\$ -
	\$ 1,206	\$ -	\$ 1,206	\$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

***December 31, 2019***

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 460	\$ -	\$ -	\$ 460

***December 31, 2018***

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 431	\$ -	\$ -	\$ 431

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

For non-financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

***December 31, 2019***

		Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreclosed assets	\$	112	\$ -	\$ -	\$ 112
Servicing assets		2,744	-	-	2,744
	\$	2,856	\$ -	\$ -	\$ 2,856

***December 31, 2018***

		Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreclosed assets	\$	117	\$ -	\$ -	\$ 117
Servicing assets		2,925	-	-	2,925
	\$	3,042	\$ -	\$ -	\$ 3,042

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

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# NMB Financial Corporation

## Notes to Consolidated Financial Statements

Quantitative information about Level 3 fair value measurements is included in the table below (in thousands):

*December 31, 2019*

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Adjustment (%)
Impaired loans	\$ 460	Appraisal of collateral	Appraisal adjustments	19.00
			Liquidation expenses	6.00
Foreclosed assets	112	Appraisal of collateral	Appraisal adjustments	19.00
			Liquidation expenses	6.00
Servicing assets	2,744	Discounted cash flows	Constant Prepayment Rate - Commercial	16.63
			Constant Prepayment Rate - Real estate	14.00
			Discount Rate - Commercial	8.36
			Discount Rate - Real estate	10.09
	\$ 3,316			

*December 31, 2018*

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Adjustment (%)
Impaired loans	\$ 431	Appraisal of collateral	Appraisal adjustments	19.00
			Liquidation expenses	8.00
Foreclosed assets	117	Appraisal of collateral	Appraisal adjustments	19.00
			Liquidation expenses	10.00
Servicing assets	2,925	Discounted cash flows	Constant Prepayment Rate - Commercial	13.53
			Constant Prepayment Rate - Real estate	11.40
			Discount Rate - Commercial	9.11
			Discount Rate - Real estate	10.85
	\$ 3,473			

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value on the Bank's consolidated balance sheets.

The following information should not be interpreted as an estimate of the fair value of the entire Bank, since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities.

Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Bank's financial instruments:

### ***Investment Securities (Carried at Fair Value)***

The fair value of securities available-for-sale and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices.

### ***Loans Held-for-Sale (Carried at Lower of Cost or Fair Value)***

The fair values of loans held-for-sale are based upon management's estimation of expected net sales proceeds. For loans held for sale included as Level 2 fair values, fair value is based on amounts to be received at settlement by establishing the expected buyer requirement or market interest rates. For loans held for sale included as Level 3 fair values, fair value is based upon the lowest level of input that is significant to the fair value measurements.

### ***Impaired Loans (Generally Carried at Fair Value)***

Impaired loans are those that the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

### ***Servicing Assets (Carried at Lower of Cost or Fair Value)***

The fair value of loan servicing assets is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness.

### ***Foreclosed Assets***

Foreclosed assets consist of properties acquired as a result of deeds in lieu of foreclosure, foreclosure or through other means related to collateral on Company loans. Costs relating to the development or improvement of assets are capitalized, and costs relating to holding the property are charged to expense. The Company had \$112,000 and \$117,000 of foreclosed assets as of

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

December 31, 2019 and 2018, respectively. These assets are included as Level 3 fair values, based upon the highest level of input that is significant to the fair value measurements.

The estimated fair values of the Company's financial instruments were as follows (in thousands):

### December 31, 2019

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 37,980	\$ 37,980	\$ 37,980	\$ -	\$ -
Interest-earning time deposits	15,681	15,681	-	15,681	-
Securities available-for-sale	961	961	-	961	-
Securities held-to-maturity	2,039	2,055	-	2,055	-
Loans receivable, net of allowance, including loans held-for-sale	320,097	337,905	-	-	337,905
Loan servicing assets	2,744	2,744	-	2,744	-
Restricted stock	839	839	-	839	-
Accrued interest receivable	931	931	-	931	-
Financial liabilities:					
Deposits	333,887	334,960	-	334,960	-
Borrowings	11,072	11,161	-	11,161	-
Accrued interest payable	295	295	-	295	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

### December 31, 2018

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 113,752	\$ 113,752	\$ 113,752	\$ -	\$ -
Interest-earning time deposits	249	249	-	249	-
Securities available-for-sale	1,206	1,206	-	1,206	-
Securities held-to-maturity	2,459	2,425	-	2,425	-
Loans receivable, net of allowance, including loans held-for-sale	286,804	295,662	-	-	295,662
Loan servicing assets	2,925	2,925	-	2,925	-
Restricted stock	816	816	-	816	-
Accrued interest receivable	934	934	-	934	-
Financial liabilities:					
Deposits	365,501	364,650	-	364,650	-
Borrowings	11,571	11,307	-	11,307	-
Accrued interest payable	331	331	-	331	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

# NMB Financial Corporation

## Notes to Consolidated Financial Statements

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### 19. Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2019 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through April 22, 2020, the date these consolidated financial statements were available to be issued.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the coronavirus as a pandemic, based on the rapid increase in exposure globally.

The full impact of the coronavirus continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, industry and workforce. Given the daily evolution of the coronavirus and the global responses to curb its spread, the Company is not able to estimate the effects of the coronavirus on its results of operations, financial condition or liquidity for fiscal year 2020.

In addition, the adverse economic effects of the coronavirus may lead to an increase in credit risk on the Bank's commercial and residential loan portfolios. The Bank is also monitoring the fluctuations in the markets as it pertains to interest rates and fair value of our investments for other than temporary impairment. To curtail the spread of the virus, our branch in Manhattan and Corp. retail office in Fort Lee have been temporarily closed. All our other branch offices have reduced their operating hours and are closed on Saturdays, as of March 18, 2020.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to the coronavirus pandemic. This legislation aims at providing relief for individuals and businesses that have been negatively impacted by the coronavirus pandemic.

The CARES Act also includes a provision for the Company to opt out of applying the "troubled-debt restructuring" (TDR) accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are eligible for this relief if the related loans were not more than 30 days past due as of December 31, 2019.

While the Company continues to evaluate the disruption caused by the pandemic and impact of the CARES Act, these events may have a material adverse impact on the Company's results of future operations, financial position, capital, and liquidity in fiscal year 2020. Further, a decrease in results of future operations may place a strain on the Company's capital reserve ratios.

The Company opened a new branch in Flushing, New York on February 18, 2020.

The Board of Directors of the Company approved the opening of a branch in Duluth, Georgia on July 18, 2019 and another in Closter, New Jersey on October 17, 2019. The Company received approvals from regulatory authorities to open both branches, in 2020.

## ORGANIZATION

### BOARD OF DIRECTORS

**Byungkuk Lee**  
Chairman of the Board  
NMB Financial Corporation  
President & CEO  
Leeward International Inc.

**Dong Hwan Kim**  
Chairman of the Board  
New Millennium Bank  
President & CEO  
Powerline Imports Inc.

**Young Kil Kim**  
Chairman  
Bethel Industries, Inc.

**Donna Baik**  
President  
Lovely Homes LLC

**Yeong S. Shim**  
CEO  
DHY Sonamoo, LLC

**E. Rae Cho**  
CEO  
Della Nona Corporation

**In Jin Choi**  
Private Investor

**Hyong (Young) Cho, CPA**  
Managing Partner  
Anthrop-J Investment Group, LLC  
Formerly a partner  
PricewaterhouseCoopers

**Jason Wong Chon**  
CEO  
Missha US, Inc.

**Hong Sik Hur**  
President & CEO  
New Millennium Bank

### EXECUTIVE OFFICERS

**Hong Sik Hur**  
President & Chief Executive Officer

**Gregory Daniels**  
SVP & Chief Financial Officer

**Justin Kim**  
SVP & Chief Credit Officer

**Chan Park**  
SVP & Chief Operating Officer

**Anthony Taikyo Suh**  
SVP & Chief Marketing Officer

**William Lee**  
SVP & HR Director  
Home Mortgage Dept.

**Andrew Sung Kim**  
SVP & Chief Relationship Officer  
Bank Spokesman

**Bo-Young K. Lee**  
SVP & Controller

### RELATIONSHIP OFFICERS

**Yong Sik Choi**  
FVP & Relationship Manager  
Fort Lee Branch

**Soonjoo Lee**  
VP & Branch Manager  
Palisades Park Branch

**Hye Won Chang**  
VP & Branch Manager  
Fort Lee Branch

**Peter KG Kim**  
FVP & LPO Manager  
Atlanta Office

### ADMINISTRATIVE OFFICERS

**Steven Chang**  
FVP & SBA Manager

**Hack Chull Kim**  
FVP & Com'l Loan Manager

**Archita Roy**  
FVP & BSA Officer

**Sunny Kim**  
VP & Security Officer  
Assistant Compliance Officer

**Dipa Bhatt**  
VP & Credit Admin

**Ja Young Choi**  
VP & Note Manager

**Younkook Cho**  
VP & Loan Officer

**Hyun Kyung Choi**  
FVP & Branch Manager  
Bayside Branch

**Soonyi Lee**  
VP & Branch Manager  
Manhattan Branch

**Hitesh Patel**  
VP & Relationship Manager  
New Brunswick Branch

**Kevin Cho**  
VP & LPO Manager  
Texas Office



## ORGANIZATION

### OFFICE LOCATIONS

Corporate Headquarters  
222 Bridge Plaza South  
Fort Lee, NJ 07024  
Tel: 201-585-6090

SBA Loan Center  
222 Bridge Plaza South  
Fort Lee, NJ 07024  
Tel: 201-585-6090

Georgia Loan Production Office  
3235 Satellite Blvd.  
Building 400, Suite 300  
Duluth, GA 30096  
Tel: 770-291-2198

Texas Loan Production Office  
2727 LBJ Freeway  
Suite 740  
Farmers Branch, TX 75234  
Tel: 469-459-1151

### BRANCH LOCATIONS

New Brunswick Branch  
57 Livingston Avenue  
New Brunswick, NJ 08901  
Tel: 732-729-1100

Fort Lee Branch  
1620 Lemoine Avenue  
Fort Lee, NJ 07024  
Tel: 201-944-1110

Bayside Branch  
209-25 Northern Blvd.  
Bayside, NY 11361  
Tel: 347-836-4914

Fort Lee Corporate Branch  
222 Bridge Plaza South  
Fort Lee, NJ 07024  
Tel: 201-585-6090

Manhattan Branch  
312 Fifth Avenue, 3rd Floor  
New York, NY 10001  
Tel: 212-239-1023

Palisades Park Branch  
136 Broad Avenue  
Palisades Park, NJ 07650  
Tel: 201-944-1983

Flushing Branch  
141-28 Northern Blvd.  
Flushing, NY 11354  
Tel: 718-888-1895

### OTHER INFORMATION

Independent Auditors  
BDO USA, LLP  
1220 Broadcasting Road, Suite 201  
Wyomissing, PA 19610  
Tel: 610-373-7200  
Fax: 610-373-7222  
[www.bdo.com](http://www.bdo.com)

Legal Counsel  
WindelsMarxLane & Mittendorf, LLP  
120 Albany Street Plaza  
New Brunswick, NJ 08901  
Tel: 732-448-2513  
Fax: 732-846-8877  
[www.windelsmarx.com](http://www.windelsmarx.com)

Shareholder Inquiries Contact  
New Millennium Bank  
Gregory Daniels  
Tel: 732-875-1977  
[gdaniels@nmbonline.com](mailto:gdaniels@nmbonline.com)

Bo-Young K. Lee  
Tel: 201-676-3472  
[bylee@nmbonline.com](mailto:bylee@nmbonline.com)





**| We're Your Community  
We're Your Community Bank**

