The information in this preliminary offering circular is not complete and may be changed. This preliminary offering circular is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated January 30, 2019

PRELIMINARY OFFERING CIRCULAR

4,200,000 Shares

Common Stock

This is an initial public offering of shares of common stock of BankFlorida, a Florida state-chartered community bank (the "Bank") (formerly FirstCity Bank of Commerce). We are offering 4,200,000 shares of our common stock, par value $1.00 per share.

Prior to this offering, there has been no public market for our common stock. We currently estimate that the public offering price per share of our common stock will be between $9.50 and $10.50 per share. Our common stock has been approved for listing on the Nasdaq Capital Market under the symbol "BFL," subject to official notice of issuance.

Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 18 of this document.

Shares of our common stock are not savings accounts, deposits or other obligations of any bank, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, and are subject to investment risks, including the possible loss of the entire amount you invest.

These securities have not been approved or disapproved by the Federal Deposit Insurance Corporation, the Securities and Exchange Commission nor any other regulatory body, nor has the Federal Deposit Insurance Corporation, the Securities and Exchange Commission nor any other regulatory body passed upon the adequacy or accuracy of this offering circular. Any representation to the contrary is unlawful.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 and, as a result, have elected to take advantage of certain reduced public company reporting and disclosure requirements in this offering circular.

No registration statement covering the offer and sale of the Bank's common stock has been or will be filed with the Securities and Exchange Commission, the Florida Division of Securities or any other state securities regulator.

The distribution of this offering circular and the offering of the shares in certain jurisdictions outside the United States may be restricted by law.

	Per Share	Total
Initial public offering price	$	$
Underwriting discounts(1)	$	$
Proceeds to us, before expenses(1)(2)	$	$

(1) The per share and total underwriting discounts and the proceeds amounts in the table above do not give effect to the fact that no underwriting discounts will be paid with respect to up to 200,000 shares of common stock to be sold pursuant to the directed share program.

(2) For all fees and expenses paid to the underwriters in this offering, see "Underwriting" in this offering circular.

The underwriters may also exercise their option to purchase up to an additional 630,000 shares of our common stock from us at the public offering price less the underwriting discount, for 30 days after the date of this offering circular.

The shares of common stock in this offering will be ready for delivery on or about , 2019.

B. Riley FBR

Hovde Group, LLC

The date of this offering circular is , 2019.

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You should rely only on the information contained in this offering circular and any supplement or addendum that may be provided to you. Neither the Bank nor any of the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this offering circular and any supplement or addendum is accurate only as of the date thereof, regardless of the time of delivery of this offering circular or any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

ABOUT THIS OFFERING CIRCULAR

Unless we state otherwise or the context otherwise requires, references in this offering circular to "we," "us," "our," "BankFlorida," the "Bank" refer to BankFlorida (formerly FirstCity Bank of Commerce).

References to our "common stock" refer to our common stock, par value $1.00 per share.

Unless otherwise expressly stated or the context otherwise requires, all information in this offering circular assumes that the underwriters will not exercise their option to purchase additional shares of common stock from us.

INDUSTRY AND MARKET DATA

The market data and other statistical information used throughout this offering circular are based on independent industry sources and publications. Some data is also based on our good faith estimates, which are derived from our review of internal surveys, as well as independent industry publications, government publications, reports by market research firms or other published independent sources. None of the independent industry publications referred to in this offering circular was prepared on our or our affiliates' behalf or at our expense, and we have not independently verified the data or information obtained from these sources. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding other forward-looking statements in this offering circular.

IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY

We qualify as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we may present only two years of audited financial statements and only two years of related management's discussion and analysis of financial condition and results of operations;
- we may present less than five years of selected historical financial information;
- we are exempt from the requirements to obtain an attestation and report from our auditors on management's assessment of our internal control over financial reporting under the Sarbanes- Oxley Act of 2002, or the Sarbanes-Oxley Act;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- we are not required to give our stockholders non-binding advisory votes on our executive compensation or golden parachute payments.

We have elected to take advantage of the scaled disclosure requirements and other relief described above in this offering circular and may take advantage of these exemptions for so long as we remain an emerging growth company. We will remain an emerging growth company until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed $1.07 billion, (b) the date that the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of June 30 of that year, (c) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt, or (d) the end of fiscal year following the fifth anniversary of the completion of this offering.

In addition to the scaled disclosure requirements and other relief described above, the JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies until they would otherwise apply to private companies.

OFFERING CIRCULAR SUMMARY

This summary highlights certain material information contained elsewhere in this offering circular. Because this is a summary, it may not contain all of the information that is important to you when deciding to invest in our common stock. Therefore, you should read this entire offering circular before investing, including the information under "Risk Factors" beginning on page 18, "Cautionary Note Regarding Forward-Looking Statements" on page 36 and our financial statements and related notes appearing elsewhere in this offering circular, before deciding to invest in our common stock.

Overview

BankFlorida is a Florida state-chartered community bank based in Palm Beach Gardens, Florida. We currently engage in a general commercial and personal banking business with an emphasis on serving the banking needs of small- to medium-sized businesses and individuals in our market. We provide customers with a strong level of personalized and knowledgeable service from highly experienced employees, while at the same time offering them a full range of banking services and the convenience of automated systems.

We currently operate out of our corporate headquarters in Palm Beach Gardens, Florida. In May 2018, we acquired a vacant branch facility in Jupiter, Florida, to which we will relocate our main office on April 15, 2019. Our primary market area is the region consisting of Palm Beach, Broward, and Martin counties. This area has over 3.6 million residents, and a Bloomberg analysis of 2016 U.S. Census data reports that Palm Beach has the second-highest level of passive income (a measure of wealth) of any metropolitan district in the United States.

In June 2018, we announced our decision to restructure our executive leadership team and board of directors as we prepare for our next phase of growth. We hired the executive management team of the former Atlantic Coast Financial Corporation (NASDAQ: ACFC), the Jacksonville-based bank holding company for Atlantic Coast Bank, which we refer to as Atlantic Coast, including John K. Stephens, Jr., who joined the Bank as Chief Executive Officer, Tracy L. Keegan, who joined as President and Chief Financial Officer, and Phillip S. Buddenbohm, who joined as Chief Lending Officer. Stephens and Keegan also joined our board of directors. Our new management team has significant banking experience and relationships throughout the entire state of Florida and a proven track record of creating a high-growth, high-performing bank. Our new management team intends to use the proceeds of the capital raise to emulate the successful strategy they implemented at Atlantic Coast, significantly growing the bank through the hiring of select individuals with the goal of increasing loans, deposits and market presence.

Our executive management team led the highly successful turnaround and growth of Atlantic Coast. Atlantic Coast had been under pre-existing consent orders from the Federal Reserve and OCC, a supervisory agreement from the OTS and a "troubled condition" designation from the OCC and the OTS. Our executive management team resolved the outstanding regulatory orders, while also growing total loans at a compound annual growth rate of 18% from 2013 to the first quarter of 2018, deposits at 8% from 2013 to the first quarter of 2018, and core earnings at 64% from 2014 to the first quarter of 2018. From its recapitalization in November 2013 at $3.75 per share until its sale to Ameris Bank which closed in May 2018 at $10.94 per share, the management team generated a 27% annual IRR to Atlantic Coast stockholders.

Our Competitive Strengths and Investment Highlights

- **Proven Leadership Team.** Our leadership team consists of senior managers with an average of over 30 years of experience in banking. Each of the members of our senior management team has deep knowledge of the Florida banking market. Most recently, our executive leadership team led the

recapitalization, turnaround and growth of Atlantic Coast, delivering, as described above, a 192% total return to stockholders over approximately 4.5 years. In addition, we have a highly experienced board of directors with strong local ties to the Florida market. We believe the experience, relationships, and entrepreneurial culture of our management team will be a key driver of our growth.

- **Favorable Market Dynamics.** Florida is the fifth largest deposit market in the United States and the third most populous state. In 2018, it was named the second-ranking "Best State for Business" in the United States by Chief Executive Magazine, and the Tax Foundation named Florida the number one business tax climate in the Southeast in 2019. According to S&P Global Market Intelligence and Federal Reserve Economic Data, Florida ranks well above average in projected population growth from 2019 to 2024, 2019 population density, housing price appreciation from 2011 through June 2018, and GDP growth from 2011 through 2017. With our headquarters in Palm Beach Gardens, we consider our current primary market area to be Palm Beach, Broward, and Martin counties. This constitutes one of the most populous and wealthiest regions in the state and is driven by a diverse range of industries. In addition to our existing footprint, we intend to expand over time into other large and highly attractive growth markets in Florida, excluding the South Florida counties of Miami-Dade and Monroe. The five largest MSAs in Florida are Miami-Fort Lauderdale-West Palm Beach, Tampa-St. Petersburg-Clearwater, Jacksonville, Orlando-Kissimmee-Sanford, and North Port-Sarasota-Bradenton. These markets and the state of Florida in general are large banking markets, enjoy excellent demographics, have low unemployment and have experienced strong housing trends. We believe these markets, excluding the South Florida portion of the Miami-Fort Lauderdale-West Palm Beach MSA, present attractive opportunities for us.

MSA	June 30, 2018 Deposits ($B)	November 2018 Unemployment Rate	2019 – 2024 Proj. Population Growth	2011 – 2018 House Price Appreciation
Miami-Fort Lauderdale-West Palm Beach	$ 237	3.1%	6.6%	81.4%
Tampa-St. Petersburg-Clearwater	65	3.0%	6.8%	74.4%
Jacksonville	62	2.9%	6.9%	49.5%
Orlando-Kissimmee-Sanford	51	2.7%	8.1%	67.0%
North Port-Sarasota-Bradenton	21	2.9%	7.5%	81.2%
Florida	565	3.1%	6.8%	67.4%
USA	10,879	3.5%	3.6%	37.7%

Source: S&P Global Market Intelligence, Federal Reserve Economic Data. House Price Appreciation data through June 2018.

- **Underserved Market.** Despite Florida's highly attractive business and population demographics, the number of community banks serving this dynamic state has decreased dramatically. According to the FDIC, as of December 31, 2007, there were 284 commercial banks headquartered in Florida. Due to significant acquisition activity as well as bank failures during the financial crisis, there were only 109 remaining commercial banks headquartered in Florida as of January 17, 2019. Of those, only 23 are community banks with assets between $500 million and $2 billion as of September 30, 2018 and only 11 are based outside of South Florida in our primary markets and are not the target of a pending acquisition. We anticipate meeting the needs of borrowers and other customers who look to bank with a community bank in the $500 million to $2 billion asset range.

- **Strong Capitalization and Clean Balance Sheet.** We are an established bank headquartered in a highly attractive banking market. As of September 30, 2018, we met the capital ratios of a well-capitalized bank, with a Tier 1 risk-based capital ratio of over 13% and a total risk-based capital ratio of over 14%. Furthermore, we have a clean balance sheet with a nonperforming assets/total assets ratio

of just 1.35% as of September 30, 2018. We believe that our existing enterprise, when combined with our new management team and the capital from this offering, will be well suited to serve as a platform for organic growth and opportunistic acquisitions.

- **Significant Organic Growth Opportunity.** We believe we can grow because of our management team's past experience and substantial valuable relationships in the Florida market. We intend to grow our business organically in a focused and strategic manner by leveraging the relationships and expertise of our experienced management team and board of directors to capitalize on the opportunities we see in our target markets. We believe that our ability to combine the sophisticated products and services of a larger bank with the personalized, flexible and high-touch service of a community bank tailored to the needs of local clients enhances our ability to effectively compete in our markets. While we expect to be immediately able to grow within our existing Palm Beach footprint, we intend to hire experienced banking professionals to grow both loans and deposits, subject to the completion of this offering. We expect to further enable our newly hired banking professionals to serve their customers through opening new loan production offices in other communities with favorable economic and demographic characteristics to help drive long-term growth, emulating our management team's proven strategy from Atlantic Coast. Due to the extensive experience of our management team in Florida markets, we know many of the talented banking professionals that could join our bank as the disruption caused by the continued bank consolidation in Florida presents a highly favorable environment for us to hire additional talented producers.
- **Potential for Strategic Acquisitions.** In addition to our plan for organic growth, subject to regulatory approval and a favorable resolution of our BSA Consent Order, we believe there is significant opportunity for strategic acquisitions of branches or whole banks in our target markets. We believe that the consolidation of community banks will continue and that, with the additional capital from this offering, an exchange-listed security, and our highly experienced management team, we will be well positioned to take advantage of acquisition opportunities in our target markets. We will evaluate acquisitions that we believe would be complementary to our existing business, with an emphasis on branch acquisitions. As we grow, we expect to use branch acquisitions to increase funding and to grow our footprint and market presence in select geographies. Despite significant bank consolidation in Florida, an abundance of small, sub-scale banks remain in the state, with 34 banks with between $50 million and $250 million in assets and an additional 24 banks with between $250 million and $500 million in assets (excluding additional banks based in the South Florida counties of Miami-Dade and Monroe).[1] We will seek to be an acquirer of choice for these smaller banks, as existing known acquirers are mostly focused on larger targets. In addition, because our stock will be listed on the Nasdaq Capital Market, we will have access to public capital. Other potential small and mid-tier bank acquirers (Florida banks up to $2 billion in assets) are either private or trade on an over-the-counter (OTC) market.

Market Opportunity

We believe that we are well positioned to take advantage of opportunities available in the markets we serve. We consider our primary target market area to be the entire state of Florida excluding the South Florida counties of Miami-Dade and Monroe, with a focus on large vibrant metropolitan areas.

Florida Market Area

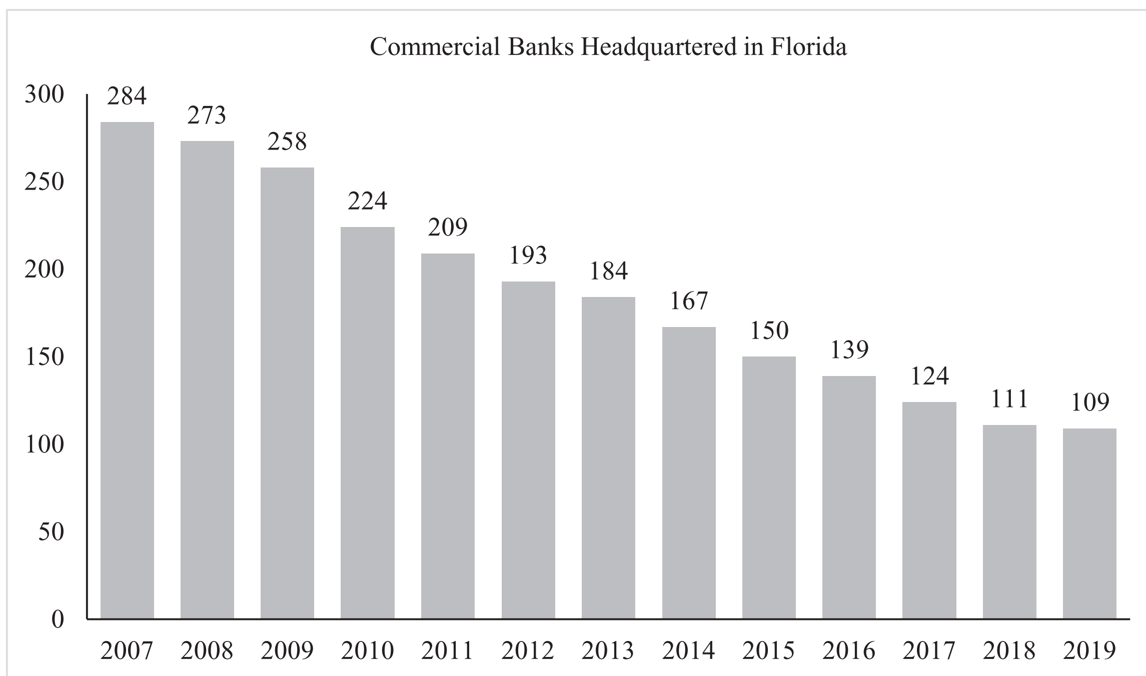
Florida is the fifth largest deposit market in the United States, with $565 billion in deposits, behind only New York, California, Texas and South Dakota. Florida is currently the third most populous state in the country

[1] Source: S&P Global Market Intelligence. Asset data is as of September 30, 2018; bank count is as of January 17, 2019.

and its population is projected by S&P Global Market Intelligence to grow 6.8% through 2024, as compared to just 3.6% for the United States as a whole. The GDP of Florida in 2017 was $976 billion, making it the fourth largest state economy in the United States.

Tourism, industry, construction, international banking, biomedical and life sciences, healthcare research, simulation training, and aerospace and defense have all contributed to Florida's economic development. In 2018, the Florida legislature passed an $89 billion budget, the largest in state history. Chief Executive Magazine named Florida the second-ranking "Best State for Business" in 2018. Furthermore, the Tax Foundation ranked Florida the number one business tax climate in the Southeast in 2019. Florida's tax climate is also highly favorable for individuals, as there is no personal income tax in the state. The recent U.S. tax reforms limiting state and local tax deductions on federal taxes further increase Florida's relative appeal over high tax states.

As discussed above, the number of banks serving Florida has decreased dramatically. As the chart below shows, as of December 31, 2007, there were 284 commercial banks headquartered in Florida. As of January 17, 2019, there were only 109 remaining commercial banks headquartered in Florida. Of those, only 23 are community banks with assets between $500 million and $2 billion as of September 30, 2018 and only 11 are based outside of South Florida in our primary markets and are not the target of a pending acquisition.



Source: FDIC; 2019 data as of January 17, 2019.

We believe that our ability to provide the high-touch, relationship-based, and personalized service of a small community bank combined with the sophisticated banking products, services and solutions of larger financial institutions will allow us to stay competitive. Furthermore, we intend to target segments of the market that many other banks do not focus on. For example, many small community banks focus on extending loans of less than $1 million while larger banks with $5 billion or more in assets typically focus on extending loans of $15 million or more. Similar to Atlantic Coast, our focus will be on serving businesses that need loans in the $3 million to $12 million range.

Our Current Primary Market

Our immediate surrounding market area of Palm Beach, Broward, and Martin counties has over 3.6 million residents, and a Bloomberg analysis of 2016 U.S. Census data reports that Palm Beach has the second-highest level of passive income (a measure of wealth) of any metropolitan district in the United States.

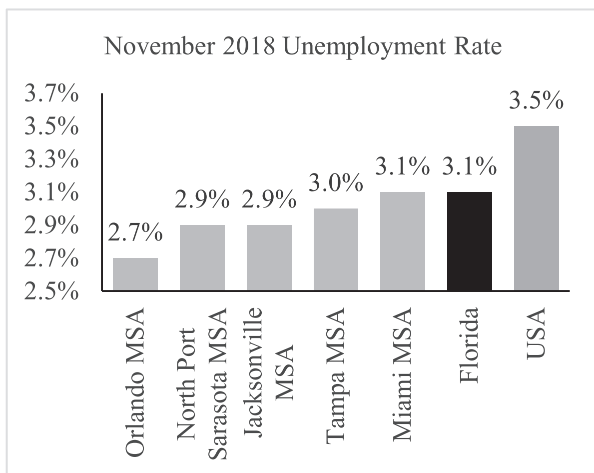
Palm Beach, Broward, and Martin counties are comprised of a large number of small- to medium-sized businesses. These businesses can benefit from a reliable, professional banking relationship. Large national and regional banks have continued to consolidate and centralize decision making and servicing into out-of-market locations. We believe that local access to decision makers gives us an advantage over the many local banking choices. We plan to differentiate our brand by bringing relationship building, decision making, and ongoing service closer to our clients.

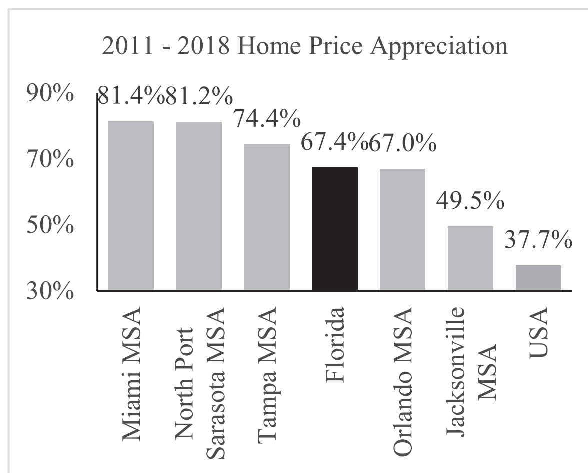
If the three county region were considered a single MSA, it would be the second most populous in Florida, behind only Miami. It also would be the second-largest deposit market in Florida, with $113 billion in deposits, behind only Miami. The area is one of Florida's wealthiest, with an estimated median household income of $61,847 as of January 2019 and an unemployment rate of just 2.9% as of November 2018.

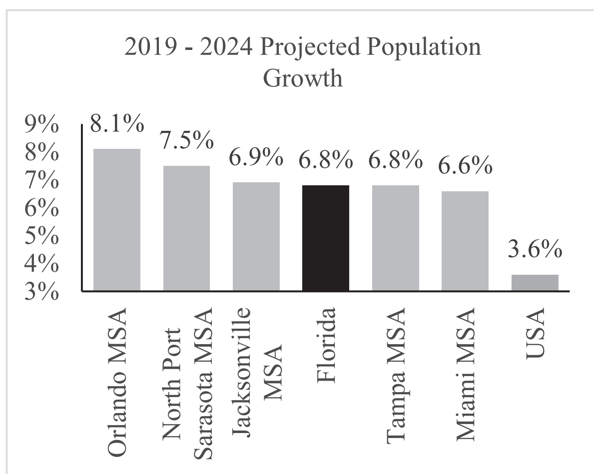
Other Growth Markets

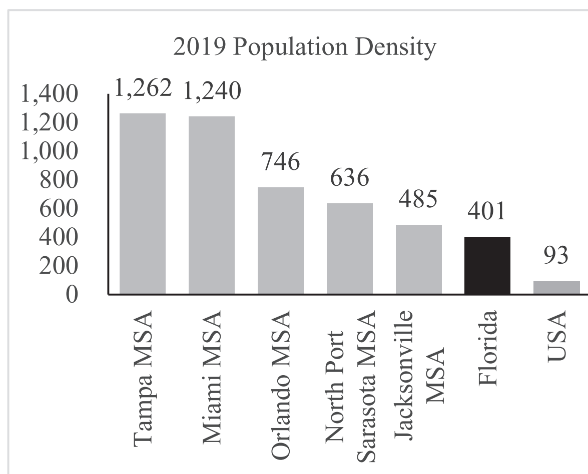
Although the majority of our operations are currently in our primary market area of Palm Beach, Broward, and Martin counties, we intend to grow throughout other high growth Florida markets.

The tables below depict some of the favorable demographic and economic characteristics of the largest MSAs in Florida. We believe these markets, excluding the city of Miami within the Miami-Fort Lauderdale-West Palm Beach MSA, present attractive opportunities for us.









Source: S&P Global Market Intelligence, Federal Reserve Economic Data. House Price Appreciation data through June 2018.

Restructuring Transactions

On October 12, 2018, our stockholders approved by written consent that we: (i) change our name to BankFlorida; (ii) increase our authorized shares of common stock to 50,000,000 shares; (iii) increase our authorized shares of preferred stock to 10,000,000 shares; (iv) change our par value per share from $5.00 to $1.00; (v) convert all of the 859,666 outstanding shares of Series A preferred stock into an equal number of shares of common stock; and (vi) combine our shares of outstanding common stock such that each outstanding share of common stock was combined and reclassified into 0.460 share of common stock (the “Stock Split”). Except as otherwise indicated, share and per share amounts set forth in this offering circular have been adjusted to reflect the foregoing transactions (the “Transactions”), including the Stock Split.

BSA Consent Order

On October 10, 2018, the Bank entered into a Stipulation to the Issuance of a Consent Order with the Federal Deposit Insurance Corporation ("FDIC") and the Florida Office of Financial Regulation ("OFR"), consenting to the issuance of a Consent Order (the "BSA Consent Order") relating to identified deficiencies in the Bank's centralized Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") compliance program, which is designed to comply with the requirements of the BSA, the USA Patriot Act of 2001 and related AML regulations (collectively, the "BSA/AML Requirements"). Per the BSA Consent Order, the Bank must, among other things: continue to increase the participation of the board of directors in the supervision of the Bank through meetings held no less frequently than monthly and to establish a committee of the board of directors to oversee the Bank's compliance with the BSA Consent Order; continue to have and retain qualified management capable of complying with the directives of the BSA Consent Order and the operations of the Bank in a safe and sound manner and seek regulatory approval for the appointment of any new director or executive officer; revise and adopt a BSA compliance program to address the risk profile of the Bank and ensure and maintain compliance with all AML laws and regulations; review and revise written policies and procedures for a risk assessment of the Bank's operations to address risk factors that affect the overall BSA/AML risk profile of the Bank; revise its system of internal controls designed to assure full compliance with BSA and to include policies and procedures addressing suspicious activity monitoring and reporting, customer due diligence, and enhanced due diligence; ensure that all appropriate personnel are aware of and can comply with the requirements of the BSA applicable to their specific responsibilities, and implement effective training programs for the board of directors, management and staff; develop a written analysis and assessment of the Bank's BSA staffing needs to assure the Bank employs BSA staff with the requisite ability, experience and other qualifications necessary to ensure BSA compliance, and designate a qualified individual to serve as the Bank's BSA officer; engage an independent qualified firm to conduct a review of all high-risk accounts and high-risk transaction activity since August 2017 to determine whether suspicious activity was properly identified and reported, and submit to the bank regulatory agencies a written plan to conduct such review and to complete the review within 120 days of regulatory non-objection to the plan; develop and adopt a plan to conduct testing for compliance with the BSA rules, and BSA compliance program and revise its internal audit program to establish procedures to review the integrity of the Bank's compliance with the BSA compliance program and the BSA rules; ensure that all required reports of the BSA program required by law or regulation are completed accurately and properly filed within the required timeframes; eliminate and/or correct all violations of laws and regulations cited by the regulatory agencies; and submit quarterly progress reports to the bank regulatory agencies. Certain activities, including expansionary activities, that otherwise require regulatory approval will likely be impeded while the BSA Consent Order remains outstanding. Compliance and resolution of the BSA Consent Order will ultimately be determined by the FDIC and OFR.

We believe that following the closing of the offering, we will be in a position to address the outstanding issues under the BSA Consent Order. At that point, we will ask the FDIC and the OFR to conduct an examination of the Bank and release us from the BSA Consent Order. However, there can be no assurances that this will happen or that the BSA Consent Order will be lifted in a timely manner if we do satisfy its requirements upon the closing of such transactions.

Recent Financial Developments

Our financial statements for the quarter and year ended December 31, 2018 are not yet available. The following expectations regarding our results for the three and twelve months ended December 31, 2018 are solely management's estimates based on currently available information. The information included below for the year ended December 31, 2018 (and for the three months ended December 31, 2018 and 2017) has not been audited and our independent public accounting firm has not performed any procedures with respect to such information and does not express an opinion or give any other form of assurance with respect to such information. Our actual

results and the final results we report for these periods may differ materially from the preliminary results reported below. This summary information is not a comprehensive statement of our financial results for this period. Please see “Risk Factors,” “Cautionary Note Regarding Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of certain factors that could result in differences between the preliminary financial data reported below and the final results we report for these periods.

The following information contains certain selected historical consolidated financial data for the periods and as of the dates indicated. The selected consolidated financial data for the year ended December 31, 2017 are derived from our audited consolidated financial statements, which are included elsewhere in this offering circular. The selected consolidated financial data as of September 30, 2018 are derived from our unaudited interim consolidated financial statements, which are included elsewhere in this offering circular. We have prepared our financial expectations for the year ended December 31, 2018 and the three months ended December 31, 2018 and 2017 on the same basis as our audited financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. Under GAAP, we are required to assess certain information that may come to our attention that may constitute one or more subsequent events, which may either need to be considered in the presentation of our audited consolidated financial statements for the year ended December 31, 2018 or disclosed in the notes thereto (or both). As a result, this information may cause a change in certain accounting estimates and other financial information, including estimates and financial information related to our allowance for loan losses, fair values and our income taxes.

Financial Results

Net losses for the three and twelve months ended December 31, 2018 were $67,000 and $82,000, respectively, compared to net loss of $329,000 for the three months ended December 31, 2017 and net income of $205,000 for the twelve months ended December 31, 2017.

The last six months have been impactful in building our infrastructure as we prepare to implement our strategic growth strategy. As a result, we experienced increased salaries and benefits of approximately $100,000 due to the addition of various support positions. In addition, professional services and fees increased over $400,000 during the year, primarily due to approximately $40,000 in one-time expenses associated with the re-audits of our 2016 and 2017 financial statements and $260,000 in one-time expenses associated with BSA testing and remediation efforts, neither of which will be experienced in 2019 or thereafter. Adjusted net income for the three months ended December 31, 2018, which excludes the one-time costs associated with re-audits and BSA remediation, would have been roughly break even while adjusted net income for the twelve months ended December 31, 2018 would have been approximately $130,000.

Having spent this time to build our infrastructure, we are now well-positioned to execute our stated strategic plan. With the re-audits of both our 2016 and 2017 financial statements, updated policies and procedures, and the BSA remediation efforts, we believe that we now have a clean platform upon which we can build and execute our strategic growth strategies. In addition, our new name and brand has already attracted bankers throughout the state who have expressed a strong desire to join our team. In 2019, we intend to expand into key high growth markets throughout the state and establish BankFlorida as the next premier community business bank in Florida.

Highlights of the fourth quarter of 2018 and the full year included:

- Net interest income was $0.6 million and $2.8 million for the three and twelve months ended December 31, 2018, respectively, compared with $0.8 million and $2.9 million for the three and twelve months ended December 31, 2017, respectively. Net interest margin was 3.07% and 3.27% for the three and twelve months ended December 31, 2018, respectively, compared with 3.67% and 3.40% for the three and twelve months ended December 31, 2017, respectively.

- Total loans (including portfolio loans, loans held-for-sale, and warehouse loans held-for-investment) increased 1% to $65.9 million at December 31, 2018, from $65.0 million at December 31, 2017.
- Total deposits decreased 1% to $72.1 million at December 31, 2018, from $72.9 million at December 31, 2017. Excluding time deposits, deposits increased by 10%, or $4.4 million.
- Total assets were $87.6 million and $87.9 million at December 31, 2018 and 2017, respectively.
- Nonperforming assets as a percentage of total assets increased to 1.33% at December 31, 2018, from 1.03% at December 31, 2017.
- Our ratios of total risk-based capital to risk-weighted assets and Tier 1 (core) capital to adjusted total assets were 14.87% and 9.86%, respectively, at December 31, 2018, and each continued to exceed the levels required by FDIC regulation, currently 10% and 5%, respectively, for a bank to be considered well-capitalized.
- Unrealized gains in the investment securities portfolio declined approximately $340,000 during the fourth quarter to $100,000 at December 31, 2018 due to market volatility. This change in unrealized gains caused by market fluctuations contributed to a $0.37 decrease in tangible book value (a non-GAAP measure) per share during the quarter. There were no unrealized gains or losses affecting book value at December 31, 2017.
- Tangible book value as of December 31, 2018 was $8.9 million, or $9.54 per share (see non-GAAP table below).

Bank Regulatory Capital

	At	
Key Capital Measures	Dec. 31, 2018	Dec. 31, 2017
Total risk-based capital ratio (to risk-weighted assets)	14.87%	15.32%
Common equity tier 1 (core) risk-based capital ratio (to risk-weighted assets)	13.64%	10.93%
Tier 1 (core) risk-based capital ratio (to risk-weighted assets)	13.64%	14.26%
Tier 1 (core) capital ratio (to adjusted total assets)	9.86%	10.17%

The decrease in risk-weighted capital ratios at December 31, 2018, compared with December 31, 2017, was primarily due to a shift in the balance sheet mix related to loans and investment securities.

Credit Quality

	At	
	Dec. 31, 2018	Dec. 31, 2017
	(Dollars in thousands)	
Nonperforming loans	$1,168	$ 903
Nonperforming loans to total portfolio loans	1.81%	1.38%
Nonperforming assets	$1,168	$ 903
Nonperforming assets to total assets	1.33%	1.03%
Troubled debt restructurings performing for more than 12 months under terms of modification	$ 996	$ 903

Nonperforming assets increased slightly during the year due to the addition of two new credits that experienced financial difficulties. One of the credits is well secured and the other is in the process of collection.

Provision / Allowance for Loan Losses

	At and for the Three Months Ended			At and for the Year Ended	
	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
	(Dollars in thousands)				
(Recovery of) provision for portfolio loan losses	$ (229)	$ —	$ (32)	$ (211)	$ 10
Allowance for portfolio loan losses	$ 835	$ 797	$ 664	$ 835	$ 664
Allowance for portfolio loan losses to total portfolio loans	1.30%	1.19%	1.02%	1.30%	1.02%
Allowance for portfolio loan losses to nonperforming loans	71.49%	64.20%	73.53%	71.49%	73.53%
Net charge-offs (recoveries)	$ (267)	$ (57)	$ —	$ (382)	$ 11
Net charge-offs (recoveries) to average outstanding portfolio loans (annualized)	(0.40)%	0.08%	0.00%	(0.56)%	0.02%

Net recoveries totaled $267,000 for the three months ended December 31, 2018. There were no charge-offs or recoveries experienced during the three months ended December 31, 2017. This reflects a trend of solid economic conditions across our markets, which has led to continued low levels of net charge-offs during the last twelve months.

No provision expense was recorded for the twelve months ended December 31, 2018. A provision expense of $10,000 was recorded for the twelve months ended December 31, 2017.

Net Interest Income

	Three Months Ended			Year Ended	
	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
	(Dollars in thousands)				
Net interest income	$ 639	$ 736	$ 763	$2,825	$2,865
Net interest margin	3.07%	3.31%	3.67%	3.27%	3.40%
Yield on investment securities	4.89%	4.65%	4.12%	4.64%	3.80%
Yield on loans	4.56%	4.75%	4.94%	4.62%	4.76%
Total cost of funds	1.44%	1.32%	1.03%	1.24%	0.99%
Average cost of deposits	1.41%	1.30%	0.97%	1.20%	0.95%
Rates paid on borrowed funds	2.07%	1.87%	1.67%	1.85%	1.58%

The slight decrease in net interest margin during the three months and twelve months ended December 31, 2018, compared with net interest margin for the three and twelve months ended December 31, 2017, reflected an increase in rates paid on deposits and borrowed funds, with little to no change in rates on new loans due to highly competitive lending conditions.

Noninterest Income / Noninterest Expense / Income Tax Expense

	Three Months Ended			Year Ended	
	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
	(Dollars in thousands)				
Noninterest income	$ 33	$ 78	$ 21	$ 224	$ 245
Noninterest expense	$1,091	$898	$1,115	$3,472	$3,131
Income tax expense (benefit)	$ (124)	$ (19)	$ 29	$ (132)	$ (236)

The decrease in noninterest income for the three months ended December 31, 2018, compared with that of the three months ended December 31, 2017, primarily reflected reduced service charges and fees.

The increase in noninterest expense during the three and twelve months ended December 31, 2018, compared with that of the three and twelve months ended December 31, 2017, primarily reflected an increase in salaries and employee benefits, occupancy expense, and professional services and fees, partially offset by reduced data processing expenses.

The income tax benefit realized for the three and twelve months ended December 31, 2018 was a result of a tax provision adjustment related to previously recorded taxes on non-taxable interest income. The income tax benefit recorded in 2017 was primarily related to the reversal of a previously established valuation allowance against our deferred tax asset, as well as being impacted by the newly enacted tax legislation.

Non-GAAP Reconciliation

	Three Months Ended Dec. 31,		Year Ended Dec. 31,	
	2018	**2017**	**2018**	**2017**
GAAP income (loss) before income tax expense	$ (190)	$ (300)	$ (213)	$ (30)
Data processing expenses	57	333	45	333
One time professional fees	222	—	388	—
Loan recoveries and adjustments	(166)	—	(64)	—
OTTI	—	43	17	43
Adjusted income (loss) before income tax expense	(77)	76	173	346
Income tax expense (benefit)	(20)	20	45	90
Adjusted net income (loss)	$ (57)	$ 56	$ 128	$ 256

Tangible book value is a non-GAAP financial measure. Because we do not currently have any intangible assets, tangible stockholders' equity is equal to stockholders' equity, tangible assets is equal to assets, and tangible book value is equal to book value. Accordingly, no reconciliations are required for these measures.

Statements of Operations (Unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended			Year Ended	
	Dec. 31, 2018	**Sept. 30, 2018**	**Dec. 31, 2017**	**Dec. 31, 2018**	**Dec. 31, 2017**
Interest and dividend income:					
Loans, including fees	$ 760	$ 829	$ 795	$ 3,133	$ 3,151
Securities and interest-earning deposits in other financial institutions	167	187	170	727	503
Total interest and dividend income	927	1,016	965	3,860	3,654
Interest expense:					
Deposits	267	264	177	941	708
Other borrowings	21	16	25	94	80
Total interest expense	288	280	202	1,035	788
Net interest income	639	736	763	2,825	2,865
(Recovery of) provision for portfolio loan losses	(229)	—	(32)	(211)	10
Net interest income after (recovery of) provision for portfolio loan losses	868	736	795	3,035	2,855
Noninterest income:					
Service charges and fees	17	17	16	71	121
(Loss) gain on sale of loans held-for-sale	(1)	52	(5)	123	127
Loss on sale of investment	—	—	—	(17)	—
Other income	17	9	10	48	(3)
Total noninterest income	33	78	21	224	245
Noninterest expense:					
Salaries and employee benefits	433	427	372	1,640	1,537
Occupancy	88	87	66	356	257
Data processing	137	82	425	368	760
Professional services and fees	296	184	118	637	218
Regulatory assessments	17	23	14	66	68
Other	119	95	121	404	291
Total noninterest expense	1,091	898	1,115	3,472	3,131
Income (loss) before income tax expense	(190)	(84)	(300)	(213)	(30)
Income tax expense (benefit)	(124)	(19)	29	(132)	(236)
Net income (loss)	$ (67)	$ (65)	$ (329)	$ (82)	$ 205
Net income (loss) per basic and diluted share	$ (0.07)	$ (0.07)	$ (0.35)	$ (0.09)	$ 0.22
Basic and diluted weighted average shares outstanding	934,349	934,349	934,349	934,349	934,349

Balance Sheets (Unaudited)
(Dollars in thousands)

	Dec. 31, 2018	Dec. 31, 2017
ASSETS		
Cash and due from financial institutions	$ 2,356	$ 2,000
Short-term interest-earning deposits	2,507	2,717
Total cash and cash equivalents	4,863	4,717
Securities available-for-sale	11,085	1,833
Securities held-to-maturity	—	13,839
Portfolio loans, net of allowance of $835 and $664, respectively	63,867	64,701
Other loans:		
Loans held-for-sale	—	270
Warehouse loans held-for-investment	1,993	—
Total other loans	1,993	270
Federal Home Loan Bank stock, at cost	346	348
Premises and equipment, net	2,990	143
Bank owned life insurance	1,038	1,008
Accrued interest receivable	241	287
Deferred tax assets	363	273
Other assets	789	426
Total assets	$87,575	$87,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 8,315	$10,638
Interest-bearing demand	41,438	34,753
Time	22,304	27,469
Total deposits	72,057	72,860
Federal Home Loan Bank advances	6,267	6,000
Accrued expenses and other liabilities	338	115
Total liabilities	78,662	78,975
Common stock, additional paid-in capital, retained deficit, and other equity	8,847	8,928
Accumulated other comprehensive (loss) income	66	(58)
Total stockholders' equity	8,912	8,870
Total liabilities and stockholders' equity	$87,575	$87,846

Selected Consolidated Financial Ratios and Other Data (Unaudited)
(Dollars in thousands, except per share data)

	At and for the Three Months Ended Dec. 31,		At and for the Year Ended Dec. 31,	
	2018	2017	2018	2017
Interest rate				
Net interest spread	3.01%	3.61%	3.23%	3.38%
Net interest margin	3.07%	3.67%	3.27%	3.40%
Average balances				
Portfolio loans receivable, net	$67,800	$63,731	$66,558	$65,955
Warehouse loans held-for-investment	959	—	413	—
Total interest-earning assets	83,263	83,268	86,313	84,124
Total assets	89,448	87,968	92,199	88,540
Deposits – includes non-interest deposits	75,825	72,633	78,099	74,869
Total interest-bearing liabilities	71,291	69,072	73,083	69,755
Total liabilities	80,173	78,827	83,407	80,057
Stockholders' equity	9,274	9,140	8,792	8,483
Performance ratios (annualized)				
Return on average total assets	(0.30)%	(1.49)%	(0.01)%	0.80%
Return on average stockholders' equity	(2.90)%	(14.38)%	(0.15)%	8.39%
Ratio of operating expenses to average total assets	1.22%	1.32%	2.58%	2.26%
Credit and liquidity ratios				
Nonperforming loans	$ 1,168	$ 903	$ 1,168	$ 903
Impaired loans	1,168	903	1,168	903
Nonperforming assets to total assets	1.33%	1.03%	1.33%	1.03%
Nonperforming loans to total portfolio loans	1.82%	1.38%	1.82%	1.38%
Allowance for loan losses to nonperforming loans	71.49%	73.53%	71.49%	73.53%
Allowance for loan losses to total portfolio loans	1.30%	1.02%	1.30%	1.02%
Net charge-offs (recoveries) to average outstanding portfolio loans (annualized)	(0.40)%	0.00%	(0.56)%	0.02%
Ratio of gross portfolio loans to total deposits	89.79%	89.71%	89.79%	89.71%
Capital ratios				
Tangible stockholders' equity to tangible assets [1]	10.18%	10.10%	10.18%	10.10%
Average stockholders' equity to average total assets	10.37%	10.39%	10.37%	10.39%
Other Data				
Tangible book value per share [1]	$ 9.54	$ 9.49	$ 9.54	$ 9.49

(1) Non-GAAP financial measure. Because we do not currently have any intangible assets, tangible stockholders' equity is equal to stockholders' equity, tangible assets is equal to assets, and tangible book value is equal to book value. Accordingly, no reconciliations are required for these measures.

Risks Affecting Us

We are subject to numerous risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows and

prospects. Please read the section entitled “Risk Factors” beginning on page 18 for a discussion of some of the factors you should carefully consider before deciding to invest in our common stock.

Corporate Information

Our principal executive office is located at 11760 US Highway 1, Suite 102-W, Palm Beach Gardens, Florida 33408, and our telephone number at that address is (561) 630-5595. Our website address is www.bankflorida.com. The information contained on our website is not a part of, or incorporated by reference into, this offering circular.

THE OFFERING

Common stock offered by us	4,200,000 shares (or 4,830,000 shares if the underwriters exercise their over-allotment option in full).
Common stock to be outstanding after this offering[(1)]	5,134,349 shares (or 5,764,349 shares if the underwriters exercise their over-allotment option in full).
Use of proceeds	Assuming an initial public offering price of $10.00 per share, which is the midpoint of the offering price range set forth on the cover page of this offering circular, we estimate that the net proceeds to us from the sale of our common stock in this offering will be approximately $38.3 million, after deducting estimated underwriting discounts and estimated offering expenses. We intend to use the proceeds from this offering to support our organic growth and for other general corporate purposes. For additional information, see "Use of Proceeds."
Over-allotment option	We have granted the underwriters a 30-day option to purchase a maximum of 630,000 additional shares of our common stock from us at the initial public offering price to cover over-allotments.
Dividend policy	We do not intend to pay any cash dividends on our common stock in the foreseeable future after this offering. Instead, we anticipate that all of our future earnings will be retained to support our operations and finance the growth and development of our business. Any future determination to pay dividends on our common stock will be made, subject to applicable law and regulatory approvals, by our board of directors and will depend upon our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business strategy and other factors that our board deems relevant. See "Dividend Policy."
Listing	Our common stock has been approved for listing on the Nasdaq Capital Market under the symbol "BFL," subject to official notice of issuance.
Directed share program	At our request, the underwriters have reserved, at the initial public offering price, up to 200,000 shares offered by this offering circular, for sale to some of our officers, employees, related persons and certain other persons who are otherwise associated with us through a directed share program. Reserved shares purchased by our directors and officers will be subject to the lock-up provisions described in "Underwriting—Lock-up agreements." If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered by this offering circular.

Risk factors	Investing in our common stock involves significant risks. You should read "Risk Factors" beginning on page 18, as well as other cautionary statements throughout this offering circular, before investing in shares of our common stock.

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(1) Based on 934,349 shares of common stock issued and outstanding as of September 30, 2018. Unless otherwise indicated, information contained in this offering circular regarding the number of shares of our common stock outstanding after this offering does not include:

- up to 630,000 shares of common stock that may be issued upon the exercise in full of the underwriters' over-allotment option;
- 10,120 shares of common stock issuable upon exercise of outstanding stock options with a weighted average exercise price of $11.05 per share, of which 9,660 shares were vested as of September 30, 2018;
- 413,661 shares of common stock issuable upon the exercise of stock options we intend to grant to our directors, executive officers and other employees upon completion of this offering, at an exercise price equal to the purchase price for common stock in this offering; and
- 192,341 shares of common stock reserved for future issuance under our stock option plans (excluding the 423,781 shares issuable upon exercise of outstanding stock options as noted above).

RISK FACTORS

Investing in our common stock involves a high degree of risk. There are risks, many beyond our control, that could cause our financial condition or results of operations to differ materially from management's expectations. You should carefully consider the following risk factors, which describe some of the risks that may affect us, as well as the other information in this offering circular, including our financial statements and the related notes thereto, before deciding whether to invest in our common stock. Any of the following risks, by itself or together with one or more other factors, could adversely affect our business, prospects, financial condition, results of operations and cash flows, perhaps materially. The risks presented below are not the only risks that we face. Additional risks that we do not presently know or that we currently deem immaterial may also have an adverse effect on our business, results of operations, financial conditions, prospects, and the market price and liquidity of our common stock. In such an event, the value of our common stock could decline and you could lose all or part of your investment. Further, to the extent that any of the information contained in this offering circular constitutes forward-looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See "Cautionary Note Regarding Forward-Looking Statements" on page 36.

Risks Related to our Business and Operations

We may be unable to successfully implement our business strategy and as a result, our financial condition and results of operations may be negatively affected.

Our future success will depend on management's ability to successfully implement its business strategy, which includes managing operating expenses, attracting and maintaining cost-efficient deposits, continuing to grow our mortgage banking, our commercial and industrial lending, warehouse lending, and small business lending businesses, as well as our banking services to small businesses. While we believe we have the management resources and continue to develop internal systems to successfully implement our strategy, it will take time to fully implement our strategy. We expect that it may take a significant period of time before we can achieve the intended results of our business strategy. During the period we are implementing our plan, our results of operations may be negatively impacted. In addition, even if our strategy is successfully implemented, it may not produce positive results.

Additionally, future success in the expansion of commercial real estate lending, commercial business lending, warehouse lending, and small business lending businesses will depend on management's ability to attract and retain highly skilled and motivated loan originators. We compete against many institutions with greater financial resources to attract these qualified individuals. Failure to recruit and retain adequate talent could reduce our ability to compete successfully and adversely affect our business and profitability.

Our growth will substantially increase our expenses and impact our results of operations.

Although we believe that our growth-oriented business strategy will support our long term profitability and franchise value, the expense associated with our growth, including compensation expense for the employees needed to support this growth and other expenses associated with our locations, is expected to negatively affect our results. In addition, in order for our existing banking office to contribute to our long term profitability, we will need to be successful in attracting and maintaining cost-efficient deposits at this location. In order to successfully manage our growth, we need to effectively execute policies, procedures and controls to maintain our credit quality and oversee our operations. We can provide no assurance that we will be successful in this strategy.

We may need to raise additional capital in the future to execute our growth-oriented business strategy.

In order to continue our growth, we will be required to maintain our regulatory capital ratios at levels higher than the minimum ratios set by our regulators. The implementation of certain regulatory requirements, such as

the Basel III accord and the Dodd-Frank Act, has established higher tangible capital requirements for financial institutions. These developments may require us to raise additional capital in the future. We can offer no assurance that we will be able to raise capital in the future, or that the terms of any such capital will be beneficial to our existing stockholders. In the event we are unable to raise capital in the future, we may not be able to continue our growth strategy.

Our growth-oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees.

We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from growth. Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees, and we may need to adopt additional equity plans in order to do so. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

We rely on our management team for the successful implementation of our business strategy.

Turnover of key management and directors, or the loss of other senior managers could have a disproportionate impact on us and may have a material adverse effect on our ability to implement our business plan. As we are a relatively small bank with a relatively new and small management team, certain members of our senior management team have more responsibility than his or her counterpart typically would have at a larger institution with more employees, and we have fewer management-level personnel who are in a position to assume the responsibilities of our executive management team.

Interest rate volatility could significantly reduce our profitability, business, financial condition, results of operations and liquidity.

Our earnings largely depend on the relationship between the yield on our earning assets, primarily loans and investment securities, and the cost of funds, primarily deposits and borrowings. This relationship, commonly known as the net interest margin, is susceptible to significant fluctuation and is affected by economic and competitive factors that influence the yields and rates for, and the volume and mix of, our interest-earning assets and interest-bearing liabilities.

Interest rate risk can be defined as an exposure to movement in interest rates that could have an adverse impact on our net interest income. Interest rate risk arises from the imbalance in the re-pricing, maturity and/or cash flow characteristics of assets and liabilities. We are subject to interest rate risk to the degree that our interest-bearing liabilities re-price or mature more slowly or more rapidly or on a different basis than our interest earning assets. Significant fluctuations in interest rates could have a material adverse impact on our business, financial condition, results of operations or liquidity.

Our interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of our balance sheet and off-balance sheet instruments as they relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on net interest income, is determined through the use of modeling and other techniques under multiple interest rate scenarios. Management's objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in our balance sheet.

Future changes in interest rates could impact our financial condition and results of operations.

The Federal Reserve Bank maintained the federal funds rate at the historically low rate of 0.25% during 2014 and through mid-December 2015. The rate was raised to a target rate of 0.50% in December 2015, 0.75% in

December 2016, and then 1.00%, 1.25%, 1.50%, 1.75%, 2.00%, 2.25% and 2.50% in March 2017, June 2017, December 2017, March 2018, June 2018, September 2018 and December 2018, respectively. The federal funds rate has a direct correlation to general rates of interest, including our interest-bearing deposits. Our mix of assets and liabilities is considered to be sensitive to interest rate changes. If interest rates continue to rise, net interest income might be reduced because interest paid on interest-bearing liabilities, including deposits, increases more quickly than interest received on interest-earning assets, including loans and mortgage-backed and related securities. In addition, rising interest rates may negatively affect our financial condition and results of operations because higher rates may reduce the demand for loans and the value of mortgage-related investment securities. On the other hand, if interest rates fall, customers may prepay the principal amount of their outstanding loans. The speeds at which such prepayments occur, as well as the amount of such prepayments, are within our customers' discretion. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A similar prepayment risk exists for our investment portfolio, which is primarily made up of mortgage-related securities, with the added impact of accelerated recognition of premiums paid to acquire the investment security. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

We are subject to a BSA Consent Order that requires us to take certain actions and will limit the actions we can take.

On October 10, 2018, the Bank entered into the BSA Consent Order. See "Offering Circular Summary—BSA Consent Order."

We believe that following the closing of the offering, we will be in a position to address the outstanding issues under the BSA Consent Order. At that point, we will ask the FDIC and the OFR to conduct an examination of the Bank and release us from the BSA Consent Order. However, there can be no assurances that this will happen or that the BSA Consent Order will be lifted in a timely manner if we do satisfy its requirements upon the closing of such transactions.

We will face risks with respect to future expansion and acquisitions or mergers.

In the future and following resolution of our BSA Consent Order, we may seek to acquire other financial institutions or parts of those institutions. However, we may not have the opportunity to make suitable acquisitions on favorable terms, which could negatively impact the growth of our business. We expect that other banking and financial companies, many of which have significantly greater resources, will compete with us to acquire compatible businesses. This competition could increase prices for acquisitions that we would likely pursue. Also, acquisitions of regulated businesses such as banks are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests.

A significant portion of our loan portfolio is and will be secured by real estate, and events that negatively impact the real estate market, including the secondary market for residential mortgage loans, could hurt our business.

As of September 30, 2018, approximately 83.1% of our portfolio loans had real estate as a primary or secondary component of collateral, and in the future we expect a large portion of our portfolio loans to have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. Real estate values and the real estate markets are generally affected by a variety of factors including, but not limited to, changes in economic conditions, fluctuations in interest rates, the availability of credit, changes in tax laws and other statutes, regulations, and policies, and acts of nature. Weakening of the real estate market could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing those loans, which in turn could adversely affect our

profitability and asset quality. If we were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Additionally, weakness in the secondary market for residential lending could have an adverse impact on our profitability. Significant disruptions in the secondary market for residential mortgage loans may limit the market for and liquidity of mortgage loans other than conforming Fannie Mae and Freddie Mac loans. The effects of potential market challenges and uncertainty, including uncertainty with respect to U.S. monetary policy, could result in price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans held, any future mortgage loan originations and gains on sale of mortgage loans. Declines in real estate values and home sales volumes and financial stress on borrowers as a result of job losses or other factors could have further adverse effects on borrowers that result in higher delinquencies and charge-offs in future periods, which could adversely affect our financial condition and results of operations.

Our loan portfolio possesses and will possess increased risk due to our number of commercial real estate, commercial business, construction and multi-family loans and consumer loans, which could increase our level of provision expense.

Our outstanding commercial real estate, commercial business and multi-family real estate loans, in aggregate, accounted for approximately 56.3% of our portfolio loans as of September 30, 2018, and we expect this percentage to increase in the future. Generally, management considers these types of loans to involve a higher degree of risk compared to first mortgage loans on one-to-four family, owner occupied residential properties.

Historically, these loans have had higher risks than loans secured by residential real estate for several reasons including the following:

- *Commercial Real Estate and Commercial Business Loans*. Repayment is dependent on income being generated by the rental property or business in amounts sufficient to cover operating expenses and debt service;
- *Multi-Family Real Estate Loans*. Repayment is dependent on income being generated by the rental property in amounts sufficient to cover operating expenses and debt service;
- *Single Family Construction Loans*. Repayment is dependent upon the successful completion of the project and the ability of the contractor or builder to repay the loan from the sale of the property or obtaining permanent financing;
- *Commercial and Multi-Family Construction Loans*. Repayment is dependent upon the completion of the project and income being generated by the rental property or business in amounts sufficient to cover operating expenses and debt service. The collateral cannot be liquidated as easily as residential real estate and may involve expensive workout techniques. It may also involve large balances of loans to single borrowers or related groups of borrowers. Commercial business loans may be collateralized by equipment, inventory, accounts receivable, etc. which are difficult to liquidate in an event of default; and
- *Consumer Loans*. Consumer loans (such as automobile loans) are collateralized, if at all, with assets that may not provide an adequate source of repayment of the loan due to depreciation, damage or loss.

If these non-residential loans become nonperforming, we may have to increase our provision expense, which would negatively affect our results of operations.

Our current asset mix and our current investments may not be indicative of our future asset mix and investments, which may make it difficult to predict our future financial and operating performance.

Certain factors make it difficult to predict our future financial and operating performance including, among others: (i) our current asset mix may not be representative of our anticipated future asset mix and may change as

we continue to execute on our plans for organic loan origination and banking activities and potentially grow through future acquisitions; (ii) our current liquid securities portfolio may not necessarily be representative of our future liquid securities position; and (iii) our cost structure and capital expenditure requirements during the periods for which financial information is available may not be reflective of our anticipated cost structure and capital spending as we continue to realize efficiencies in our business, integrate future acquisitions and continue to grow our organic banking platform.

If economic conditions deteriorate or the economic recovery from such deterioration remains slow over an extended period of time in our primary market area, our results of operation and financial condition could be adversely impacted as borrowers' ability to repay loans declines and the value of the collateral securing the loans decreases. This geographic concentration in loans secured by one-to-four family residential real estate may increase credit losses, which could increase the level of provision expense.

Our financial results and financial condition may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, changes in interest rates, which may cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal and the Florida state government and other significant external events. As a result of the concentration in Palm Beach, Broward, and Martin counties, we may be more susceptible to adverse market conditions in that market. Due to the significant portion of real estate loans in the loan portfolio, decreases in real estate values could adversely affect the value of property used as collateral.

Adverse changes in the economy may also have a negative effect on the ability of borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

If our nonperforming assets increase, our earnings may be reduced.

Our nonperforming assets may increase in future periods. Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonperforming loans or real estate owned. We must establish the allowance for losses inherent in the loan portfolio that are both probable and reasonably estimable through the current period provision expenses, which are recorded as a charge to income. From time to time, we may also write down the value of properties in our other real estate owned, or OREO, portfolio to reflect changing market values. Additionally, there are substantial collections costs, such as legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance and maintenance related to OREO. Further, the resolution of nonperforming assets requires the active involvement of management, which can distract management from our overall supervision of operations and other income-producing activities.

Legislative action regarding foreclosures or bankruptcy laws may negatively impact our business, financial condition, liquidity and results of operations.

Certain laws adopted following the financial crisis delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans (some for a limited period of time), or otherwise limit the ability of residential loan servicers to take actions that may be essential to preserve the value of the mortgage loans. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increased servicing costs. Any restriction on our ability to foreclose on a loan, any requirement that we forego a portion of the amount otherwise due on a loan or any requirement that we modify any original loan terms will in some instances require us to advance principal, interest, tax and insurance payments, which is likely to negatively impact our business, financial condition, liquidity and results of operations.

We may hold and acquire OREO, which may lead to increased operating expenses and vulnerability to declines in real property values.

We may foreclose on and take title to the real estate serving as collateral for some of our loans as part of our business. Real estate owned by us and not used in the ordinary course of operations is referred to as OREO.

Increased OREO balances can lead to greater expenses as we incur costs to manage and dispose of the properties. Our earnings could be negatively affected by various expenses associated with OREO, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with property ownership, as well as by the funding costs associated with assets that are tied up in OREO. Any decrease in real estate market prices could lead to additional OREO write-downs, with a corresponding expense in our statement of operations. We evaluate OREO properties, if any, periodically and write down the carrying value of the properties if the results of our evaluation require it. The potential expenses associated with OREO and any further write-downs on such properties could have a material adverse effect on our financial condition and results of operations.

We may be exposed to environmental liabilities with respect to properties that we take title to upon foreclosure that could increase our costs of doing business and harm our results of operations.

In the course of our activities, we may foreclose and take title to residential and commercial properties and become subject to environmental liabilities with respect to those properties. The laws and regulations related to environmental contamination often impose liability without regard to responsibility for the contamination. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. Moreover, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based upon damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations would be significantly harmed.

Hurricanes or other adverse weather events could negatively affect our local markets or disrupt our operations, which would have an adverse effect on our business and results of operations.

Our market area in Florida is susceptible to hurricanes, tropical storms and related flooding and wind damage. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where we operate. We cannot predict whether or to what extent damage that may be caused by such future weather events will affect our operations or the economies in our current or future market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures or loan losses. Our business and results of operations may be adversely affected by these and other negative effects of future hurricanes, tropical storms, related flooding and wind damage and other similar weather events. As a result of the potential for such weather events, many of our customers have incurred significantly higher property and casualty insurance premiums on their properties located in our markets, which may adversely affect real estate sales and values in our markets.

If the allowance for portfolio loan losses is not sufficient to cover actual portfolio loan losses, results of operations and financial condition will be negatively affected.

In the event loan customers do not repay their loans according to their terms and the collateral security for the payments of these loans is insufficient to satisfy any remaining loan balance, we may experience significant loan losses. Such credit risk is inherent in the lending business, and failure to adequately assess such credit risk could have a material adverse effect on our financial condition and results of operations. Management makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of the borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of the loans. In determining the amount of the allowance, management reviews the loan portfolio and our historical loss and delinquency experience, as well as overall economic conditions. For larger balance non-homogeneous real estate loans, the estimate of impairment is based on the underlying collateral if collateral-

dependent, and if such loans are not collateral-dependent, the estimate of impairment is based on a cash flow analysis. If management's assumptions are incorrect, the allowance may be insufficient to cover probable incurred losses in the loan portfolio, resulting in additions to the allowance for portfolio loan losses. The allowance for portfolio loan losses is also periodically reviewed by the OFR and the FDIC, who may require us to increase the amount. Additions to the allowance for portfolio loan losses would be made through increased provision expense and would negatively affect our net income and results of operations.

In addition, in June 2016, the FASB issued a new accounting standard that will replace the current approach under generally accepted accounting principles in the United States, or GAAP, for establishing the allowance for loan losses, which generally considers only past events and current conditions, with a new forward-looking methodology that reflects the expected credit losses over the lives of financial assets starting when such assets are first originated or acquired. Under this new standard, referred to as Current Expected Credit Loss, or CECL, credit deterioration would be reflected in the income statement in the period of origination or acquisition of the loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes. The new standard is expected to generally result in increases to allowance levels and will require the application of the revised methodology to existing financial assets through a one-time adjustment to retained earnings upon initial effectiveness, which may be material. As an emerging growth company, this standard will be effective for us for fiscal years beginning after December 15, 2020 and interim reporting periods beginning after December 15, 2021. External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, financial condition and results of operations.

Operating expenses are high as a percentage of our net interest income and noninterest income, making it more difficult to maintain profitability.

Noninterest expense, which consists primarily of the costs associated with operating our business, represents a high percentage of the income we generate. The cost of generating our income is measured by our efficiency ratio, which represents noninterest expense divided by the sum of our net interest income and our noninterest income. If we are able to lower our efficiency ratio, our ability to generate income from our operations will be more effective. For the years ended December 31, 2017 and 2016, our efficiency ratios were 100.7% and 83.9%, respectively. Generally, this means we spent approximately $1.01 and $0.84 during those periods to generate $1.00 of income.

If we are unable to generate noninterest income from sales of loans originated for sale, it could have an adverse effect on our business because service charges and deposit fees are expected to continue to be under pressure.

For the year ended December 31, 2017, our service charges and deposit fees were 49.2% of total noninterest income, while gains from the sale of mortgage loans was 51.9% of total noninterest income. Gains earned from the sale of mortgage loans originated for sale and from the sale of commercial loans originated for sale under government programs are expected to be an increasingly larger part of our noninterest income under our business strategy. If our plans to increase our mortgage banking business, Small Business Administration ("SBA") lending, and U.S. Department of Agriculture ("USDA") lending are not successful, resulting in less loan originations or smaller levels of gains, our operating results could be materially affected.

Repayment and default risk associated with our adjustable rate loans may increase as interest rates rise.

Given the historically low interest rate environment in recent years, our adjustable rate loans have not been subject to an interest rate environment that causes them to adjust to the maximum level. As interest rates rise, such loans may involve repayment risks resulting from potentially increasing payment obligations by borrowers due to re-pricing and increasing the risk of default. As of September 30, 2018, there were approximately $50.5 million in adjustable rate loans in our loan portfolio, which made up 76% of our loan portfolio.

Changes in tax laws could have an adverse effect on us, the banking industry, our customers, the value of collateral securing loans and demand for loans.

Changes in tax laws contained in the recently enacted Tax Cuts and Jobs Act contain a number of provisions which could have an impact on the banking industry, borrowers and the market for single family residential and commercial real estate. Among the changes are: lower limits on the deductibility of mortgage interest on single family residential mortgages; a broad limitation on deductibility of business interest expense, which will affect commercial borrowers; and limitations on the deductibility of property taxes and state and local income taxes. We cannot predict the ultimate impact of these changes. However, such changes may have an adverse effect on the market for and valuation of single family residential properties and commercial real estate, the economics of borrowing by businesses, and on the demand for residential and commercial mortgage and business loans in the future. If home ownership or business borrowing become less attractive, demand for our loans would decrease. The value of the properties securing loans in our portfolio may be adversely impacted as a result of the changing economics of home ownership and borrowing, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations. Additionally, certain borrowers could become less able to service their debts if these changes become effective. These changes could adversely affect our business, financial condition and results of operations.

Strong competition in our primary market areas may reduce our ability to attract and retain deposits and also increase our cost of funds.

We operate in very competitive markets for the attraction of deposits, the primary source of our funding. Historically, our most direct competition for deposits has come from credit unions, community banks, large commercial banks and thrift institutions within our primary market areas. In recent years, competition has also come from institutions that largely deliver their services over the internet. Such competitors have the competitive advantage of lower infrastructure costs and substantially greater resources and lending limits and may offer services we do not provide. Particularly during times of extremely low or extremely high interest rates, we have faced significant competition for investors’ funds from short-term money market securities and other corporate and government securities. During periods of regularly increasing interest rates, competition for interest-bearing deposits increases as customers, particularly time deposit customers, tend to move their accounts between competing businesses to obtain the highest rates in the market. As a result, we incur a higher cost of funds in an effort to attract and retain customer deposits. We strive to grow our lower cost deposits, such as noninterest-bearing checking accounts, in order to reduce our cost of funds.

Wholesale funding sources may be unavailable to replace deposits at maturity and support our liquidity needs or growth, which could materially adversely impact our operating margins and profitability.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As part of our liquidity management, we use a number of wholesale funding sources in addition to non-maturity deposit growth and repayments and maturities of loans and investments.

Our financial flexibility will be severely constrained if we are unable to maintain our access to wholesale funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our profitability or ability to pursue certain business opportunities.

The FDIC insures deposits at FDIC-insured depository institutions, such as us, up to $250,000 per account. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk

classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Because we have entered into the BSA Consent Order, we anticipate that our FDIC assessment will increase for the foreseeable future. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities, or otherwise negatively impact our operations.

Regulation of the financial services industry is intense, and we may be adversely affected by changes in laws and regulations.

We are subject to extensive government regulation, supervision and examination. Such regulation, supervision and examination govern the activities in which we may engage, and are intended primarily for the protection of the deposit insurance fund and our depositors, rather than for stockholders.

In 2010 and 2011, in response to the financial crisis and recession that began in 2008, significant regulatory and legislative changes resulted in broad reform and increased regulation affecting financial institutions. The Dodd-Frank Act has created a significant shift in the way financial institutions operate. The Dodd-Frank Act also created the Consumer Financial Protection Bureau, or CFPB, to implement consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The Dodd-Frank Act contains various provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as that which occurred in 2008 and 2009. The Dodd-Frank Act has had and may continue to have a material impact on our operations, particularly through increased regulatory burden and compliance costs. On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, or the EGRRCPA, became law. Among other things, the EGRRCPA changes certain of the regulatory requirements of the Dodd-Frank Act and includes provisions intended to relieve the regulatory burden on community banks. We cannot currently predict the impact of this legislation on us. Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or the value of collateral for loans.

Future legislative changes could also require changes to business practices and potentially expose us to additional costs, liabilities, enforcement action and reputational risk.

Federal regulatory agencies have the ability to take strong supervisory actions against financial institutions that have experienced increased loan production and losses and other underwriting weaknesses or have compliance weaknesses. These actions include entering into formal or informal written agreements and cease and desist orders that place certain limitations on their operations. If we were to become subject to regulatory action in addition to the BSA Consent Order, such action could negatively impact our ability to execute our business plan, and result in operational restrictions, as well as our ability to grow, pay dividends, repurchase stock or engage in mergers and acquisitions.

The short-term and long-term impact of the changing regulatory capital requirements and anticipated new capital rules are uncertain and could materially adversely impact our business and ability to pay dividends or buyback our shares in the future.

On July 2, 2013, the federal banking agencies issued final capital rules that substantially amend the regulatory risk-based capital rules applicable to us. The rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The rules phased in over time beginning in 2015 and are fully effective in 2019. The final rules resulted in higher regulatory capital standards, which may result in lower returns on equity, require the raising of additional capital, or result in regulatory actions if we were to be unable to comply with such requirements. As of September 30, 2018, we would have been in compliance with the minimum capital requirements set forth in Basel III.

Additionally, in any economic or regulatory environment, bank regulators may impose capital requirements that are more stringent than those required by applicable existing regulations. The application of more stringent

capital requirements for us could also limit our ability to make distributions, including paying dividends or buying back our shares.

The federal banking agencies are likely to issue new liquidity standards that could result in our having to lengthen the term of our funding, restructure our business models, and increase our holdings of liquid assets.

As part of the Basel III capital process, the Basel Committee on Banking Supervision has finalized a new Liquidity Coverage Ratio, which requires a banking organization to hold sufficient "high quality liquid assets" to meet liquidity needs for a 30 calendar day liquidity stress scenario, and a Net Stable Funding Ratio, which imposes a similar requirement over a one-year period. The U.S. banking regulators have said that they intend to adopt such liquidity standards, although they have not yet proposed a rule. New rules could restrict our operations and adversely affect our results and financial condition, by requiring us to lengthen the term of our funding, restructure our business models, and increase our holdings of liquid assets.

New mortgage lending rules may constrain our residential mortgage lending business.

Over the course of the last few years, the CFPB has issued several rules on mortgage lending, notably a rule requiring all home mortgage lenders to determine a borrower's ability to repay the loan. Loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may be protected from liability. In either case, we may find it necessary to tighten our mortgage loan underwriting standards, which may constrain our ability to make loans consistent with our business strategies.

Florida financial institutions face a higher risk of noncompliance and enforcement actions with the Bank Secrecy Act and other Anti-Money Laundering statutes and regulations.

Banking regulators intensely focus on Anti-Money Laundering and Bank Secrecy Act compliance requirements, particularly the Anti-Money Laundering provisions of the USA PATRIOT Act. There is also scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. Banking regulators and examiners are aggressive in their supervision and examination of financial institutions located in the State of Florida with respect to institutions' Bank Secrecy Act and Anti-Money Laundering compliance. Consequently, a number of formal enforcement actions have been issued against Florida financial institutions.

We have entered into a BSA Consent Order with the FDIC and OFR that governs certain aspects of our operations. See "Offering Circular Summary—BSA Consent Order" for more information. If we are unable to, or fail to, comply with the BSA Consent Order, then we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan including our acquisition plans.

Our internal controls may be ineffective.

Management regularly reviews and updates our internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurances that the objectives of the controls are met. While in connection with its audit of our December 31, 2017 financial statements our independent public accounting firm identified certain deficiencies, including material weaknesses in our controls, our management believes that these deficiencies have been addressed and corrected. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our financial condition and results of operations.

Our enterprise risk management framework may not be effective in mitigating the risks to which we are subject, or in reducing the potential for losses in connection with such risks.

Our enterprise risk management framework is designed to minimize or mitigate the risks to which we are subject, as well as any losses stemming from such risks. Although we seek to identify, measure, monitor, report,

and control our exposure to such risks, and employ a broad and diversified set of risk monitoring and mitigation techniques in the process, those techniques are inherently limited in their ability to anticipate the existence or development of risks that are currently unknown and unanticipated. The ineffectiveness of our enterprise risk management framework in mitigating the impact of known risks or the emergence of previously unknown or unanticipated risks may result in our incurring losses in the future that could adversely impact our financial condition and results of operations.

Failure to keep pace with technological changes, invest in technological improvements, and manage our information systems and related risks could have an adverse effect on our financial condition and results of operations.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to serving clients better, the effective use of technology may increase efficiency and may enable financial institutions to reduce costs. Our future success will depend, in part, upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. We may need to make significant additional capital investments in technology in the future, and we may not be able to effectively implement new technology-driven products and services. Many competitors have substantially greater resources to invest in technological improvements.

We rely on our information technology and telecommunications systems and third-party service providers. Failures or interruptions affecting information technology and telecommunications systems maintained by us or our service providers could have an adverse effect on our financial condition and results of operations.

Third parties provide key components of our business infrastructure, such as banking services, processing, and internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third-party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. Further, in some instances we may be responsible for the failure of such third parties to comply with government regulations. We may not be insured against all types of losses as a result of third-party failures and our insurance coverage may not be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt the operations or increase the cost of doing business.

Our business is subject to cybersecurity risks associated with our on-line banking services and our reliance on electronic data transfer. Failure to detect or prevent a breach of our technological infrastructure or information security systems, or those of our third-party vendors and other service providers, including as a result of a cyberattack, "hacking" or identity theft, could disrupt our business, result in a disclosure or misuse of confidential or propriety information, damage our reputation, increase our costs, or have an adverse effect on our financial condition and results of operations.

We depend on our ability to process, record and monitor a large number of client transactions on a continuous basis. As client, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and clients.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of hackers, terrorists, activists, and other external parties. As noted, above, our operations rely on the secure processing, transmission, and storage of confidential information in our computer systems and networks. Our banking and other businesses rely on our digital technologies, computer and e-mail systems, software and networks to conduct our operations. In addition, to access our products and services, our clients may use personal smartphones, tablets, personal computers, and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our client's devices may become the target of cyber-attacks or information security breaches that could result in the misappropriation of clients' funds, the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our client's confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations. Therefore, a successful breach could result in significant financial loss to us, as well as damage our reputation in the markets we serve, the banking industry in general, and among our counterparties.

We may be subject to losses due to the errors or fraudulent behavior of employees or third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially adversely affected if any of our employees cause a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems or if one of our third-party service providers experiences an operational breakdown or failure. When we originate loans, we rely upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal and title information, if applicable, and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation. Any of these occurrences could result in a diminished ability of us to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could negatively impact our business, financial condition and results of operations.

The effects of litigation or investigations on our business are uncertain and could have a material and adverse effect on our business, financial condition, results of operation and prospects.

In the ordinary course of business, we are the subject of various claims and legal proceedings and may become the subject of claims, litigation or investigations, including commercial disputes and employment claims, and from time to time may be involved in governmental or regulatory investigations or similar matters arising out of our current or future business. Any claims asserted against us, regardless of merit or eventual outcome, could harm our reputation or the reputation of our management and have an adverse impact on our relationship with our clients, partners and other third parties and could lead to additional related claims. In light of the potential cost and uncertainty involved in litigation, we may settle matters even when we believe we have a meritorious defense. Certain claims may seek injunctive relief, which could disrupt the ordinary conduct of our business and operations or increase our cost of doing business. Our insurance or indemnities may not cover all claims that may be asserted against us. Furthermore, there is no guarantee that we will be successful in defending ourselves in pending or future litigation or similar matters under various laws. Any judgments or settlements in any pending litigation or future claims, litigation or investigation could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.

We are currently subject to extensive laws and regulations, as well as supervision and examination by the FDIC (which insures our deposits) and the OFR. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities. Intended to protect clients, depositors, the deposit insurance fund, and the overall financial system, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations or restrictions on the business activities in which we can engage, limit the dividend or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP, among other things.

Our operations are also subject to extensive regulation by other federal, state and local governmental authorities, and are subject to various laws and judicial and administrative decisions that impose requirements and restrictions on our operations. These laws, rules and regulations are frequently changed by legislative and regulatory authorities. In the future, changes to existing laws, rules and regulations, or any other new laws, rules or regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Such additional regulation and supervision may increase our costs and limit our ability to pursue business opportunities. Further, our failure to comply with these laws and regulations, even if the failure is inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities.

Risks Related to Ownership of Our Common Stock

Prior to this offering, no public trading market for our common stock existed and we cannot assure you that an active, liquid trading market will develop, or once developed, will be maintained.

Prior to this offering, there has been no public market for shares of our common stock. We cannot predict the extent to which investor interest in our bank will lead to the development and sustainment of an active trading market for the common stock, or how liquid that market might become. If an active and liquid trading market does not develop or is not sustained, you may have difficulty selling any shares of our common stock that you purchase in this initial public offering and the value of our common stock may be adversely affected. The initial public offering price for the shares of our common stock will be determined by negotiations between us and the representative of the underwriters, and may not be indicative of prices that will prevail in the open market following this offering. The market price of our common stock may decline below the initial public offering price, and you may not be able to sell your shares of our common stock at or above the price you paid in this offering, or at all. An inactive and illiquid trading market may also impair our ability to raise capital to continue to fund operations by selling shares of our common stock and may impair our ability to acquire other banks by using our common stock as consideration.

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

Even if an active trading market develops, the market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume of our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares of common stock at or above your purchase price, if at all. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some, but

certainly not all, of the factors that could negatively affect the price of our common stock, or result in fluctuations in the price or trading volume of our common stock, include:

- general market conditions;
- domestic and international economic factors unrelated to our performance;
- variations in our quarterly operating results or failure to meet the market's earnings expectations;
- publication of research reports about us or the financial services industry in general;
- the failure of securities analysts to cover our common stock after this offering;
- additions or departures of our key personnel;
- adverse market reactions to any indebtedness we may incur or securities we may issue in the future;
- actions by our stockholders;
- the expiration of contractual lock-up agreements;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- changes or proposed changes in laws or regulations affecting our business; and
- actual or potential litigation and governmental investigations.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of the common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Our management will have broad discretion to use the proceeds to us generated in this offering and may be unable to effectively use the proceeds to earn additional profits.

We intend to use the net proceeds generated by this offering for general corporate purposes and have not designated the amount of net proceeds that we intend to use for any particular purpose. Accordingly, we will have broad discretion regarding the application of the net proceeds to us generated in this offering and could use them for purposes other than those contemplated at the time of the offering. You may not agree with the manner in which we choose to allocate and spend the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that our use of the net proceeds from this offering will not increase our market value or yield a favorable return to us.

Because we are an emerging growth company and because we have decided to take advantage of certain exemptions from various reporting and other requirements applicable to emerging growth companies, our common stock could be less attractive to investors.

For as long as we remain an "emerging growth company," as defined in the JOBS Act, we will have the option to take advantage of certain exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including:

- we may present only two years of audited financial statements and only two years of related management's discussion and analysis of financial condition and results of operations and provide less than five years of selected historical financial information;
- we are exempt from the requirements to obtain an attestation and report from our auditors on management's assessment of our internal control over financial reporting under the Sarbanes-Oxley Act;

- we are permitted to have less extensive disclosure about our executive compensation arrangements; and
- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements.

Following our public offering, we may continue to take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us as long as we continue to qualify as an emerging growth company. It is possible that some investors could find our common stock less attractive because we may take advantage of these exemptions. If some investors find our common stock less attractive, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed $1.07 billion, (b) the date that the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of June 30 of that year, (c) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt, or (d) the end of fiscal year following the fifth anniversary of the completion of this offering.

Because we have elected to use the extended transition period for complying with new or revised accounting standards for an "emerging growth company," our financial statements may not be comparable to companies that comply with these accounting standards as of the public company effective dates.

We have elected to use the extended transition period for complying with new or revised accounting standards under Section 7(a)(2)(B) of the Securities Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with these accounting standards as of the public company effective dates. In particular, the effective date for adopting Accounting Standards Update 2016-3, *Financial Instruments—Credit Losses (Topic 326)*, which is expected to have a significant impact on financial institutions' credit loss estimates, will be during 2020 for most calendar year end public companies and would be 2022 for most calendar year end private companies. Because our financial statements may not be comparable to companies that comply with public company effective dates, investors may have difficulty evaluating or comparing our business, performance or prospects in comparison to other public companies, which may have a negative impact on the value and liquidity of our common stock. We cannot predict if investors will find our common stock less attractive because we plan to rely on this exemption. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Securities analysts may not initiate coverage or continue to cover our common stock.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect our market price. If we are covered by securities analysts, and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

The market price of our common stock could decline due to the large number of outstanding shares of our common stock eligible for future sale, including shares that will be available for sale following the expiration of the lock-up period.

Sales of substantial amounts of our common stock in the public market following this offering or in future offerings, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity securities in the future, at a time and place that we deem appropriate.

Upon completion of this offering, we will have 5,134,349 shares of common stock issued and outstanding. Of the outstanding shares of common stock, all of the 4,129,000 shares sold in this offering to persons other than our management team or directors (or 4,759,000 shares if the underwriters exercise in full their over-allotment option) will be freely transferable as the common stock are bank securities and, therefore, are exempt from registration requirements of the federal securities laws pursuant to Section 3(a)(2) of the Securities Act. Subject in certain cases to lock-up agreements with respect to our directors, officers and certain significant stockholders that restrict their ability, with certain exceptions, to transfer shares of our common stock held by them for a period of 180 days after the date of the underwriting agreement, as described under "Underwriting—Lock-up Agreements," the remaining anticipated 4,584,703 shares of our common stock outstanding following this offering (or 5,214,703 shares if the underwriters exercise in full their over-allotment option) may be sold into the market over time. Subject to certain exceptions, approximately 549,646 shares of our common stock will become eligible for sale upon expiration of the 180-day lock-up period. Accordingly, the market price of our common stock could be adversely affected by actual or anticipated sales of a significant number of shares of our common stock in the future.

Future sales of our common stock, or other securities convertible into or exercisable or exchangeable for our common stock, may result in dilution or adversely affect our stock price.

If a market were to develop for our common stock, the market price of our common stock may be adversely affected by the sale of a significant quantity of our outstanding common stock (including any securities convertible into or exercisable or exchangeable for common stock), or the perception that such a sale could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to raise additional capital by selling equity securities in the future at a time and price that we deem appropriate.

We do not anticipate paying dividends on our common stock, and our future ability to pay dividends is subject to restrictions.

We currently do not intend to pay any cash dividends on our common stock in the foreseeable future following this offering. Holders of our common stock are entitled to receive only such cash dividends as our board of directors may declare out of funds legally available for the payment of dividends. Our ability to pay dividends on our common stock will substantially depend upon our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate and other factors deemed relevant by our board of directors. There are numerous laws and banking regulations and guidance that limit our ability to pay dividends. See "Dividend Policy" and "Supervision and Regulation."

Our common stock is subordinate to our existing and future indebtedness.

Shares of our common stock are equity interests and do not constitute indebtedness. As such, our common stock ranks junior to all our customer deposits and indebtedness, and other non-equity claims on us, with respect to assets available to satisfy claims. Additionally, holders of common stock may be subject to the prior dividend and liquidation rights of any series of preferred stock we may issue.

Future equity issuances could result in dilution, which could cause the value of our common stock to decline.

After receiving approval from the OFR, we may issue up to 44,235,651 additional shares of our common stock, as authorized in our articles of incorporation, which authorized amount could be increased by a vote of a majority of our outstanding shares. We may issue additional shares of our common stock in the future pursuant to current or future equity compensation plans or in connection with future acquisitions or financings. If we choose to raise capital by selling shares of our common stock for any reason, the issuance would have a dilutive effect on the holders of our common stock and could have a material negative effect on the value of our common stock.

Being a public company will increase our expenses and administrative workload and will expose us to risks relating to evaluation of our internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act.

As a public company, we will need to comply with additional laws and regulations, including the Sarbanes-Oxley Act, the Dodd-Frank Act, and related rules of the SEC and requirements of the Nasdaq Stock Market. We were not required to comply with these laws and requirements as a private company. Complying with these laws and regulations will require the time and attention of our board of directors and management and will increase our expenses. Among other things, we will need to: design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board; prepare and distribute periodic reports in compliance with our obligations under the federal securities laws; establish new internal policies, principally those relating to disclosure controls and procedures and corporate governance; institute a more comprehensive compliance function; and involve to a greater degree our outside legal counsel and accountants in the above activities.

In addition, we also expect that being a public company will make it more expensive for us to obtain director and officer liability insurance. We may be required to accept reduced coverage or incur substantially higher costs to obtain this coverage. These factors could also make it more difficult for us to attract and retain qualified executives and members of our board of directors, particularly directors willing to serve on our audit committee.

We are in the process of evaluating our internal control systems to allow management to report on, and our independent auditors to assess, our internal controls over financial reporting. We plan to perform the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification requirements of Section 404 of the Sarbanes-Oxley Act. We are required to comply with Section 404 in our annual report for the year ending December 31, 2019. However, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations that remain unremediated.

If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory agencies such as the SEC. In addition, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements or the trading price of our common stock to decline. If we fail to remediate any material weakness, our financial statements may be inaccurate, our access to the capital markets may be restricted and the trading price of our common stock may decline.

As a public company, we will be required to report, among other things, control deficiencies that constitute a “material weakness” or changes in internal controls that materially affect, or are reasonably likely to materially affect, internal controls over financial reporting. A “control deficiency” exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A “significant deficiency” is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles that results in more than a remote likelihood that a misstatement of financial statements that is more than inconsequential will not be prevented or detected. A “material weakness” is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Various factors could make a takeover attempt of us more difficult to achieve.

Certain provisions of our organizational documents, in addition to certain federal and state banking laws and regulations, could make it more difficult for a third party to acquire us without the consent of our board of directors, even if doing so were perceived to be beneficial to our stockholders. For example, state law, our articles of incorporation or our bylaws will provide for, among other things:

- no cumulative voting in the election of directors;
- limitations on the ability of stockholders to call a special meeting of stockholders, which requires the holders of at least one half of the outstanding shares of us entitled to vote at the meeting to call a special meeting;
- blank check preferred stock; and
- the ability of our board of directors to increase the size of our board by two between stockholder meetings and to fill the resulting vacancies.

We believe that these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. However, these provisions apply even if the offer may be determined to be beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is in our best interest and that of our stockholders.

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution, such as us, which could delay or prevent an acquisition. Acquisition of 10% or more of any class of voting stock of a depository institution, including shares of our common stock following completion of this offering, generally creates a rebuttable presumption that the acquirer "controls" the depository institution. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including us.

The combination of these provisions could effectively inhibit a non-negotiated merger or other business combination, which could adversely impact the value of our common stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements included in this offering circular that are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may" and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. These forward-looking statements include statements related to our projected growth, anticipated future financial performance, and management's long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from expected developments or events, or business and growth strategies, including anticipated internal growth.

These forward-looking statements involve significant risks and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Potential risks and uncertainties include, but are not limited to, those described under "Risk Factors" and the following:

- our ability to successfully implement our business strategy;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- attraction and retention of key personnel, including our management team and directors;
- unanticipated changes in securities markets, public debt markets, and other capital markets;
- general economic conditions, whether local, regional or national;
- monetary and fiscal policies of the U.S. Government;
- quality and composition of our loan and investment portfolios;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- natural disasters, public unrest, adverse weather, public health or other conditions impacting our or our customers' operations;
- litigation, tax, and other regulatory matters;
- competition among depository and other financial institutions;
- demand for banking services, including loan and deposit products in our market area;
- banking laws compliance, and the regulatory environment;
- our internal controls over financial reporting;
- technology and product delivery channels, and end user demands and acceptance of new products;
- any failure or breach of our operational systems, information systems or infrastructure, or those of our third-party vendors and other service providers, including cyber-attacks;
- fraud committed by our customers or persons doing business with our clients;
- our ability to favorably resolve our BSA Consent Order;
- application and interpretation of accounting principles and guidelines; and
- other economic, competitive, governmental, regulatory or technological factors affecting us.

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations, and, therefore, you are cautioned not to place undue reliance on any forward-looking statements, which should be read in conjunction with the other cautionary statements that are included elsewhere in this offering circular. In particular, you should consider the numerous risks described in the "Risk Factors" section of this offering circular. Further, any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, unless required to do so under the federal securities laws. You should, however, review the risk factors we describe in the reports we will file from time to time with the FDIC after the date of this offering circular. See "Where You Can Find More Information."

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock in this offering will be approximately $38.3 million, assuming an initial public offering price of $10.00 per share, which is the midpoint of the offering price range set forth on the cover page of this offering circular, and after deducting estimated underwriting discounts and offering expenses. Each $1.00 increase (decrease) in the assumed initial public offering price of $10.00 per share of common stock would increase (decrease) the net proceeds to us of this offering by approximately $3.9 million, after deducting estimated underwriting discounts and offering expenses.

We intend to use the proceeds from this offering to support our organic growth and for other general corporate purposes.

We have not specifically allocated the amount of net proceeds to us that will be used for these purposes, and our management will have broad discretion over how these proceeds are used.

DIVIDEND POLICY

We currently do not intend to pay any cash dividends on our common stock in the foreseeable future following this offering. We anticipate that all of our future earnings will be retained to support our operations and finance the growth and development of our business. Any future determination relating to our dividend policy will be made, subject to applicable law and regulatory approvals, by our board of directors and will depend on a number of factors, including: (i) our historical and projected financial condition, liquidity and results of operations; (ii) our capital levels and needs; (iii) tax considerations; (iv) any acquisitions or potential acquisitions that we may examine; (v) statutory and regulatory prohibitions and other limitations; (vi) the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends; (vii) general economic conditions; and (viii) other factors deemed relevant by our board of directors. The board of directors may determine not to pay any cash dividends at any time in the future.

We are subject to bank regulatory requirements that in some situations could affect our ability to pay dividends. The FDIC’s prompt corrective action regulations prohibit depository institutions, such as us, from making any “capital distribution,” which includes any transaction that the FDIC determines, by order or regulation, to be “in substance a distribution of capital,” unless the depository institution will continue to be at least adequately capitalized after the distribution is made. Pursuant to these provisions, it is possible that the FDIC would seek to prohibit the payment of dividends on our capital stock if we failed to maintain a status of at least adequately capitalized. Applicable Florida banking laws contain similar provisions. If we did pay dividends on our capital stock, those dividends would be payable out of our capital surplus. See “Supervision and Regulation.”

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2018, after giving effect to the Transactions, including the 1-for-0.460 stock split:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale of 4,200,000 shares of common stock by us in this offering at an assumed initial public offering price of $10.00 per share, which is the midpoint of the offering price range set forth on the cover page of this offering circular, after deducting estimated underwriting discounts and commissions and offering expenses and assuming the underwriter's over-allotment option is not exercised.

This table should be read in conjunction with, and is qualified in its entirety by reference to, "Selected Historical Financial Information," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes thereto appearing elsewhere in this offering circular.

	September 30, 2018	
(dollars in thousands)	**Actual**	**As adjusted**
Stockholders' equity:		
Preferred stock, par value $1.00 per share; 10,000,000 shares authorized; no shares issued and outstanding (actual and as adjusted)	$ —	$ —
Common stock, par value $1.00 per share; 50,000,000 shares authorized; 934,349 shares outstanding actual; 5,134,349 shares outstanding as adjusted	934	5,134
Additional paid-in capital	13,349	47,409
Accumulated deficit	(5,369)	(5,369)
Accumulated other comprehensive income	407	407
Total stockholders' equity	$ 9,321	$47,581
Capital ratios:		
Total risk-based capital ratio	14.80%	73.10%
Tier 1 risk-based capital ratio	13.58%	71.88%
Common equity Tier 1 risk-based capital ratio	13.58%	71.88%
Leverage capital ratio	9.37%	35.37%

Each $1.00 increase (decrease) in the assumed initial public offering price of $10.00 per share of common stock, the midpoint of the range set forth on the cover page of this offering circular, would increase (decrease) total stockholders' equity and total capitalization by $3.9 million, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

The table above does not reflect:

- up to 630,000 shares of common stock that may be issued upon the exercise in full of the underwriters' over-allotment option;
- 10,120 shares of common stock issuable upon exercise of outstanding stock options with a weighted average exercise price of $11.05 per share, of which 9,660 shares were vested as of September 30, 2018;
- 413,661 shares of common stock issuable upon the exercise of stock options we intend to grant to our directors, executive officers and other employees upon completion of this offering, at an exercise price equal to the purchase price for common stock in this offering; and
- 192,341 shares of common stock reserved for future issuance under our stock option plans (excluding the 423,781 shares issuable upon exercise of outstanding stock options as noted above).

DILUTION

If you invest in our common stock, your ownership interest will be diluted to the extent that the initial public offering price per share of our common stock exceeds the net tangible book value per share of our common stock immediately following this offering. Net tangible book value per share of our common stock is equal to our total stockholders' equity, excluding preferred stock and intangible assets, divided by the number of shares of our common stock outstanding. As of September 30, 2018, after giving effect to the Transactions, including the 1-for-0.460 stock split, the net tangible book value of our common stock was $9.3 million, or $9.98 per share.

After giving effect to our sale of 4,200,000 shares of common stock in this offering (assuming the underwriters do not exercise their option to purchase any additional shares of our common stock to cover over-allotments, if any) at the initial public offering price of $10.00 per share and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us, the pro forma net tangible book value of our common stock as of September 30, 2018 would have been approximately $47.6 million, or $9.27 per share. Therefore, this offering will result in an immediate decrease of approximately $0.71 in the net tangible book value per share of our common stock to existing stockholders and an immediate dilution of approximately $0.73 in the net tangible book value per share of our common stock to investors purchasing shares in this offering, or approximately 7.3% of the public offering price.

The following table illustrates the calculation of the amount of dilution per share that a purchaser of our common stock in this offering will incur given the assumptions above:

Initial public offering price per share		$10.00
Net tangible book value per share of common stock as of September 30, 2018	$ 9.98	
Decrease in net tangible book value per share of common stock attributable to new investors in this offering	$(0.71)	
Pro forma net tangible book value per share of common stock upon completion of this offering		$ 9.27
Dilution per share of common stock to new investors in this offering		$ 0.73

If the underwriters exercise their over-allotment in full, then our pro forma net tangible book value of our common stock as of September 30, 2018, would be approximately $53.4 million, or $9.27 per share, representing an immediate decrease in net tangible book value to our existing stockholders of approximately $0.71 per share and immediate dilution in net tangible book value to investors purchasing shares in this offering of approximately $0.73 per share.

The following table summarizes, as of September 30, 2018, the number of shares of our common stock purchased from us, the total consideration paid, or to be paid, and the average price per share paid, or to be paid, by existing stockholders and by the new investors in this offering, at the initial public offering price of $10.00 per share before deducting the underwriting discounts and commissions and the estimated offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(in thousands except share data)				
Existing stockholders as of September 30, 2018	934,349	18.2%	$14,283	25.4%	$15.29
New investors in this offering	4,200,000	81.8%	$42,000	74.6%	$10.00
Total	5,134,349	100.0%	$56,283	100.0%	$10.96

The table above excludes:

- up to 630,000 shares of common stock that may be issued upon the exercise in full of the underwriters' over-allotment option;
- 10,120 shares of common stock issuable upon exercise of outstanding stock options with a weighted average exercise price of $11.05 per share, of which 9,660 shares were vested as of September 30, 2018;
- 413,661 shares of common stock issuable upon the exercise of stock options we intend to grant to our directors, executive officers and other employees upon completion of this offering, at an exercise price equal to the purchase price for common stock in this offering; and
- 192,341 shares of common stock reserved for future issuance under our stock option plans (excluding the 423,781 shares issuable upon exercise of outstanding stock options as noted above).

In connection with the exercise of any of these stock options or if other equity awards are issued under our stock option plans, investors purchasing in this offering will experience further dilution.

SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables set forth selected historical financial and other data (i) as of and for the nine months ended September 30, 2018 and 2017 and (ii) as of and for the years ended December 31, 2017 and 2016. Selected financial data as of and for the years ended December 31, 2017 and 2016 have been derived from our audited financial statements included elsewhere in this offering circular. Selected financial data as of and for the nine months ended September 2018 and 2017 have been derived from our unaudited financial statements included elsewhere in this offering circular and have not been audited but, in the opinion of our management, contain all adjustments (consisting of only normal or recurring adjustments) necessary to present fairly our financial position and results of operations for such periods in accordance with GAAP. Our historical results are not necessarily indicative of any future period. The performance, asset quality and capital ratios are unaudited and derived from our audited and unaudited financial statements as of and for the periods presented. Average balances have been calculated using daily averages, unless otherwise denoted.

Selected Statements of Financial Condition Data

	At September 30,		At December 31,	
	2018	2017	2017	2016
	(Dollars in thousands)			
Total assets	$92,046	$88,095	$87,846	$86,922
Cash and cash equivalents	5,345	7,898	4,717	8,450
Total investment securities	12,732	12,261	15,673	8,806
Portfolio loans, net	66,538	65,040	64,701	67,579
Other loans (held-for-sale and warehouse loans held for investment)	2,101	—	270	—
Restricted equity securities*	305	302	348	290
Deposits	79,245	74,501	72,860	74,004
Total borrowings	3,200	4,333	6,000	5,000
Total stockholders' equity	9,321	9,142	8,871	7,739

* Federal Home Loan Bank Stock, at cost.

Selected Statements of Income Data

	Nine Months Ended September 30,		Years Ended December 31,	
	2018	2017	2017	2016
	(Dollars in thousands, except share data)			
Total interest and dividend income	$2,933	$2,711	$3,654	$3,151
Total interest expense	748	587	789	546
Net interest income	2,185	2,124	2,865	2,605
Provision for portfolio loan losses	19	42	10	105
Net interest income after provision for portfolio loan losses	2,166	2,082	2,855	2,500
Total noninterest income	192	188	245	237
Total noninterest expense	2,380	2,001	3,131	2,383
(Loss) income before income tax expense (benefit)	(22)	269	(30)	354
Income tax expense (benefit)	(8)	(265)	(236)	—
Net income	$ (14)	$ 534	$ 205	$ 354
Income per common share:				
Basic	$ (0.01)	$ 0.43	$ 0.15	$ 0.29
Diluted	$ (0.01)	$ 0.43	$ 0.15	$ 0.28
Dividends declared per common share	$ 0.00	$ 0.05	$ 0.05	$ 0.05

Selected Financial Ratios and Other Data

	At and for the nine months ended September 30, 2018	2017	At and for the years ended December 31, 2017	2016
Interest rate:				
Net interest spread[1]	3.25%	3.27%	3.35%	3.52%
Net interest margin[2]	3.30%	3.32%	3.40%	3.56%
Performance ratios:				
Return on average total assets	(0.02)%	0.80%	0.23%	0.46%
Return on average stockholders' equity	(0.20)%	8.40%	2.38%	4.87%
Ratio of operating expense to average total assets	2.55%	2.26%	3.53%	3.09%
Efficiency Ratio[3]	100.13%	86.53%	100.65%	83.85%
Ratio of average interest-earning assets to average interest-bearing liabilities	119.7%	105.35%	120.74%	129.07%
Credit and liquidity ratios:				
Nonperforming assets to total assets	1.35%	0.92%	1.03%	1.24%
Nonperforming portfolio loans to total loans	1.86%	1.23%	1.38%	1.58%
Allowance for portfolio loan losses to nonperforming portfolio loans	64.20%	85.81%	73.53%	61.66%
Allowance for portfolio loan losses to total portfolio loans	1.19%	1.06%	1.02%	0.97%
Net recoveries (charge-offs) to average outstanding portfolio loans	0.17%	(0.02)%	0.02%	0.00%
Capital ratios:				
Average stockholders' equity to average total assets	9.85%	9.56%	9.75%	9.41%
Total capital to risk weighted assets	14.80%	16.40%	15.32%	14.25%
Common equity tier 1 capital to risk weighted assets	9.87%	11.74%	10.93%	10.63%
Tier 1 capital to risk weighted assets	13.58%	15.21%	14.26%	13.13%
Tier 1 capital to adjusted assets	9.37%	10.14%	10.17%	9.36%
Other data:				
Number of full service branch offices	1	1	1	1
Number of loans	176	161	196	168
Number of deposit accounts	635	619	598	597

(1) Interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
(2) Net interest margin represents net interest income divided by average interest earning assets.
(3) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with "Selected Historical Financial Information" and the financial statements and related notes included elsewhere in this offering circular. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this offering circular.

General Description of Business

The Bank has traditionally focused on attracting deposits and investing those funds primarily in loans, including commercial real estate loans, consumer loans, first mortgages on owner-occupied, one- to four-family residences and home equity loans. Additionally, the Bank may invest funds in multi-family residential loans, commercial business loans, and commercial and residential construction loans. The Bank also invests funds in investment securities, primarily those issued by U.S. government-sponsored agencies or entities, including Fannie Mae, Freddie Mac and Ginnie Mae.

Revenues are derived principally from interest on loans and other interest-earning assets, such as investment securities. To a lesser extent, revenue is generated from service charges, gains on the sale of loans, and other non-interest income.

The Bank offers a variety of deposit accounts having a wide range of interest rates and terms, which generally include noninterest-bearing and interest-bearing demand, savings and money market, and time deposit accounts with terms ranging from three months to five years.

Critical Accounting Policies

Certain accounting policies are important to the presentation of the Bank's financial condition, because they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, without limitation, changes in interest rates, performance of the economy, financial condition of borrowers, and laws and regulations. Management believes that its critical accounting policies include: (i) determining the allowance for portfolio loan losses (the allowance) and the provision for portfolio loan losses (provision expense); (ii) measuring for impairment in troubled debt restructurings (TDR); (iii) determining the fair value of investment securities; (iv) determining the fair value of other real estate owned (OREO); and (v) accounting for deferred income taxes.

There have been no material updates to these accounting policies or estimates affected by these accounting policies during the first nine months of 2018. For additional discussion of our critical accounting policies and estimates, see Note 1 to our audited financial statements included herein.

Comparison of Financial Condition at September 30, 2018 and December 31, 2017

General

Total assets increased $4.2 million, or 4.8%, to $92.0 million at September 30, 2018, as compared to $87.8 million at December 31, 2017. The increase in assets was funded primarily by increases in non-maturing deposits of $6.7 million. Net portfolio loans increased $1.8 million, cash and cash equivalents increased $0.6 million while investment securities decreased $2.9 million. Total deposits increased $6.4 million, or 8.8%,

to $79.2 million at September 30, 2018, from $72.9 million at December 31, 2017. Noninterest-bearing demand accounts decreased $2.8 million to $7.8 million at September 30, 2017 from $10.6 million at December 31, 2017. Interest-bearing demand accounts, including savings and money market accounts, increased by $9.5 million. Time deposits decreased by $0.3 million during the nine months ended September 30, 2018. Total borrowings decreased by $2.8 million to $3.2 million at September 30, 2018, from $6.0 million at December 31, 2017. The Bank continues to focus on core deposit growth as its primary funding source. Stockholders' equity increased by $0.5 million to $9.3 million at September 30, 2018, from $8.9 million at December 31, 2017, primarily due to other comprehensive income of $0.4 million for the nine months ended September 30, 2018.

Following are the summarized comparative balance sheets as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017	Increase / (Decrease) Amount	%
	(Dollars in Thousands)			
Assets:				
Cash and cash equivalents	$ 5,345	$ 4,717	$ 628	13.3%
Investment securities	12,732	15,673	(2,941)	(18.8)%
Portfolio loans	67,335	65,365	1,970	3.0%
Allowance for portfolio loan losses	797	664	132	20.0%
Portfolio loans, net	66,538	64,701	1,837	2.8%
Other loans (held-for-sale and warehouse held for investment)	2,101	270	1,831	678.1%
Other assets	5,330	2,485	2,845	114.5%
Total assets	$92,046	$87,846	$ 4,200	4.8%
Liabilities and stockholders' equity:				
Deposits:				
Noninterest-bearing demand	$ 7,805	$10,638	$(2,833)	(26.6)%
Interest-bearing demand	3,091	3,325	(234)	(7.0)%
Savings and money market	41,164	31,428	9,736	31.0%
Time	27,185	27,469	(284)	(1.0)%
Total deposits	79,245	72,860	6,385	8.8%
Federal Home Loan Bank advances	3,200	6,000	(2,800)	(46.7)%
Accrued expenses and other liabilities	280	115	165	143.5%
Total liabilities	82,725	78,975	3,750	4.7%
Total stockholders' equity	9,321	8,871	450	5.1%
Total liabilities and stockholders' equity	$92,046	$87,846	$ 4,200	4.8%

Cash and Cash Equivalents

Cash and cash equivalents increased $0.6 million to $5.3 million at September 30, 2018 from $4.7 million at December 31, 2017. The Bank has increased contingent liquidity capacity and sources to meet potential funding requirements, including availability from the FHLB, the Federal Reserve Bank of Atlanta and other private institutional sources to fund the origination of loans, fund other interest-earning assets, and pay-off liabilities.

Investment Securities

Investment securities are comprised primarily of debt securities of U.S. government-sponsored enterprises and mortgage-backed securities. The investment portfolio decreased $2.9 million to $12.7 million at September 30, 2018, from $15.7 million at December 31, 2017, primarily due to the sale of $1.9 million of investment securities in March of 2018, coupled with normal amortization in the portfolio.

All $13.6 million of investment securities as of September 30, 2018 were classified as available-for-sale. As of December 31, 2017 there were $1.8 million of investment securities classified as available-for-sale with the remaining $13.8 million of investment securities classified as held-to-maturity.

As of September 30, 2018, $12.7 million of investment securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, which are institutions the U.S. government has affirmed its commitment to support.

As of September 30, 2018, no investment securities were pledged as collateral for the FHLB advances or any other borrowings.

Portfolio Loans

Below is a comparative composition of net portfolio loans as of September 30, 2018 and December 31, 2017:

	September 30, 2018	% of Total Portfolio Loans	December 31, 2017	% of Total Portfolio Loans
		(Dollars in Thousands)		
Loans secured by real estate:				
One- to four-family	$26,578	39.8%	$31,473	48.7%
Commercial	21,669	32.5%	22,262	34.4%
Home equity	2,493	3.7%	2,458	3.8%
Multifamily	4,777	7.1%	3,928	6.1%
Total real estate loans	55,517	83.1%	60,121	93.0%
Commercial Business Loans	11,119	16.7%	4,432	6.9%
Consumer Loans	146	0.2%	108	0.1%
Total Portfolio Loans	$66,782	100.0%	$64,661	100.0%
Allowance for portfolio loan losses	(797)		(664)	
Net deferred portfolio loan costs	116		105	
Premium	437		599	
Portfolio loans, net	$66,538		$64,701	
Total other loans (held for sale and warehouse loans held for investment)	$ 2,101		$ 270	

Total portfolio loans increased $2.1 million, or 3.3%, to $66.8 million at September 30, 2018, as compared to $64.6 million at December 31, 2017, primarily due to net originations of $6.7 million of commercial loans, somewhat offset by a decrease in total real estate loans of $4.6 million.

Growth in mortgage origination and other commercial business loan production is expected to exceed principal amortization and loan pay-offs in the near future, but we can give no assurances regarding such growth.

The composition of the Bank's portfolio loans is weighted toward one- to four-family residential mortgage loans. As of September 30, 2018, one- to four-family and home equity loans totaled $29.1 million, or 43.5% of total portfolio loans.

Allowance for Portfolio Loan Losses

The allowance was $0.8 million, or 1.2% of total portfolio loans, at September 30, 2018, compared to $0.7 million, or 1.0% of total portfolio loans, at December 31, 2017.

The activity in the allowance for the nine months ended September 30, 2018 and 2017 was as follows:

	September 30, 2018	September 30, 2017
	(Dollars in Thousands)	
Balance at beginning of year	$ 664	$ 665
Charge-offs:		
Loans secured by real estate:		
One- to four-family	—	—
Commercial	—	—
Home equity	—	—
Land	—	—
Commercial Business Loans	93	13
Consumer Loans	—	—
Total charge-offs	93	13
Recoveries:		
Loans secured by real estate:		
One- to four-family	—	—
Commercial	—	—
Home equity	—	—
Land	—	—
Commercial Business Loans	207	2
Consumer Loans	—	—
Total recoveries	207	2
Net recovery (charge-off)	114	(11)
Provision for portfolio loan losses	19	42
Balance at end of period	$ 797	$ 696
Net recoveries (charge-offs) to average outstanding portfolio loans	0.17%	(0.02)%

Below is a comparative composition of nonperforming assets as of September 30, 2018 and December 31, 2017:

	Performing	Nonperforming	Total
		(Dollars in Thousands)	
September 30, 2018			
Loans Secured by Real Estate:			
One- to four-family	$26,578	$ —	$26,578
Commercial Real Estate	21,152	517	21,669
Home Equity	2,493	—	2,493
Multi-family	4,777	—	4,777
Commercial Business Loans	10,395	724	11,119
Consumer	146	—	146
Total portfolio loans	$65,541	$1,241	$66,782
December 31, 2017			
Loans Secured by Real Estate:			
One- to four-family	$31,473	$ —	$31,473
Commercial Real Estate	22,262	—	22,262
Home Equity	2,458	—	2,458
Multi-family	3,928	—	3,928
Commercial Business Loans	3,529	903	4,432
Consumer	108	—	108
Total portfolio loans	$63,758	$ 903	$64,661

Nonperforming loans were $1.2 million, or 1.9% of total portfolio loans, at September 30, 2018, as compared to $0.9 million, or 1.4% of total portfolio loans, at December 31, 2017. The increase in nonperforming loans was primarily due to one commercial real estate property that was classified as nonperforming. The decrease in commercial business loan nonaccrual balances was primarily due to principal reductions.

The Bank continues to monitor and attempt to reduce nonperforming assets through the least costly means possible. The allowance is determined by the information available at the time such determination is made and reflects management's estimate of loss.

As of September 30, 2018 and December 31, 2017, all nonperforming loans were classified as nonaccrual. There were no loans 90 days past due and accruing interest at September 30, 2018. There were $0.8 million in loans 90 days past due and accruing interest at December 31, 2017.

Other Loans

Other loans was comprised of loans secured by one- to four-family residential homes originated internally and held for sale and warehouse loans held for investment. There were no loans held for sale at September 30, 2018. Loans held for sale totaled $0.3 million at December 31, 2017. Warehouse loans held for investment totaled $2.1 million at September 30, 2018. There were no warehouse loans held for investment at December 31, 2017.

Deferred Income Taxes

As of September 30, 2018 and December 31, 2017, the Bank evaluated the expected realization of its federal and state deferred tax assets. Based on this evaluation it was concluded that no valuation allowance was required for the federal and state deferred tax assets.

Deposits

Total deposits were $79.2 million at September 30, 2018, an increase of $6.4 million from $72.9 million at December 31, 2017. The increase was comprised of an increase of $6.7 million in non-maturing deposits, partially offset by a decrease of $0.3 million in time deposits.

Non-maturing deposits increased to $52.1 million at September 30, 2018, due to an $9.7 million increase in savings and money market deposits. This increase represents our continued strategy to grow core deposits, which includes a focus on the development of commercial relationships. Time deposits decreased by $0.3 million as of September 30, 2018, primarily due to maturities in both retail and brokered certificates of deposit.

Management believes near term deposit growth will be moderate with an emphasis on core deposit growth. The Bank expects to continue to supplement its core deposit growth, if needed, with strategic retail certificates of deposit promotions, certificates of deposit sourced through a well-known national non-broker Internet deposit program, which management has successfully utilized in the past, brokered deposits or the creation of new business deposit products. Significant changes in the interest rate environment could affect the availability of deposits in the markets we serve and, therefore, may cause the Bank to change its strategy.

Federal Home Loan Bank Advances

As of September 30, 2018 and December 31, 2017, advances from the FHLB were as follows:

	September 30, 2018	December 31, 2017
	(Dollars in Thousands)	
Maturity on October 1, 2018, adjustable rate at 2.43% as of		
September 30, 2018	$ 200	2,000
Maturity on March 20, 2020, fixed rate 1.65%	1,250	1,875
Maturity on March 18, 2022, fixed rate at 1.96%	1,750	2,125
Total	$3,200	$6,000

The FHLB advances had a weighted-average maturity of 30 months and a weighted-average rate of 1.87% at September 30, 2018. The Bank had $38.0 million in portfolio loans posted as collateral for these advances as of September 30, 2018.

The Bank's remaining borrowing capacity with the FHLB was $20.9 million at September 30, 2018. The FHLB requires that the Bank collateralize the excess of the fair value of the FHLB advances over the book value with cash and investment securities. In the event the Bank prepays advances prior to maturity, it must do so at the fair value of such FHLB advances. The Bank also has the ability to supplement its loan collateral with investment securities as needed to secure the FHLB borrowings or prepay advances to reduce the amount of collateral required to secure the debt. Unpledged investment securities available for collateral amounted to $12.7 million as of September 30, 2018.

See "Liquidity" discussion below for further information regarding the Bank's FHLB advances, as well as information regarding the Bank's other liquidity sources.

Stockholders' Equity

Stockholders' equity increased by $0.5 million to $9.3 million at September 30, 2018, from $8.9 million at December 31, 2017, primarily due to other comprehensive income of $0.4 million for the nine months ended September 30, 2018. The increase in other comprehensive income during the first nine months of 2018 was primarily due to the re-classification of $13.8 million of investment securities from held-to-maturity to available-for-sale.

The Bank's equity to assets ratio was 10.1% at September 30, 2018 and December 31, 2017. As of September 30, 2018, the Bank's total capital to risk-weighted assets ratio was 14.80%, common equity tier 1 capital to risk-weighted assets ratio was 9.87%, tier 1 capital to risk-weighted assets ratio was 13.58%, and tier 1 capital to adjusted assets ratio was 9.37%. These ratios as of December 31, 2017 were 15.27%, 10.90%, 14.21%, and 10.16%, respectively. The decrease in risk-weighted capital ratios as of September 30, 2018, compared with those as of December 31, 2017, was primarily due to an increase in risk-weighted assets, due to growth in portfolio loans and an increase in cash and cash equivalents, somewhat offset by a decrease in investment securities. The Bank's capital classification under PCA defined levels as of September 30, 2018 was well-capitalized.

Comparison of Results of Operations for the Three Months Ended September 30, 2018 and 2017

General

Net loss for the three months ended September 30, 2018 was $65,000, compared to a net income of $43,000 for the three months ended September 30, 2017. The Bank's return on average total assets ratio and return on average stockholders' equity ratio (both annualized) were (0.27)% and (2.77)%, respectively, for the three months ended September 30, 2018, compared with 0.20% and 1.91%, respectively, for the three months ended September 30, 2017. Net loss for the three months ended September 30, 2018 was a decrease of $0.1 million from net income at September 30, 2017 of $43,000, primarily due to higher salaries and benefits and professional fees associated with the new executive team and growth strategy put in place in June 2018.

Net interest income was relatively flat for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. Noninterest income increased during the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily due increased gains on the sale of loans held-for-sale. Noninterest expense increased during the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily due to increased salaries and benefits and expenses associated with the new management team and growth strategies.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth certain information for the three months ended September 30, 2018 and 2017. The average yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	Three Months Ended September 30,					
	2018			2017		
	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
			(Dollars in Thousands)			
Interest-earning assets:						
Loans [1]	$69,802	$ 829	4.75%	$65,646	$ 813	4.94%
Investment securities[2]	13,547	158	4.65%	11,558	108	3.74%
Other interest-earning assets[3]	5,588	29	2.08%	6,662	25	1.52%
Total interest-earning assets	88,937	1,016	4.57%	83,866	946	4.50%
Noninterest-earning assets	5,613			4,093		
Total assets	$94,550			$87,959		
Interest-bearing liabilities:						
Interest-bearing demand accounts	$ 3,348	$ 4	0.47%	$ 2,614	$ 3	0.48%
Savings deposits and Money market accounts	41,630	144	1.38%	35,009	80	0.92%
Time deposits	27,149	116	1.70%	27,503	100	1.45%
Other borrowings	3,495	16	1.87%	4,537	23	2.00%
Total interest-bearing liabilities	75,625	280	1.32%	69,663	206	1.04%
Noninterest-bearing liabilities	9,588			9,192		
Total liabilities	85,210			78,855		
Total stockholders' equity	9,340			9,104		
Total liabilities and stockholders' equity	$94,550			$87,959		
Net interest income		$ 736			$ 740	
Net interest spread			3.25%			3.46%
Net interest-earning assets	$13,315			$14,203		
Net interest margin[4]			3.31%			3.52%
Average interest-earning assets to average interest-bearing liabilities		117.61%			120.39%	

(1) Includes portfolio loans and other loans. Calculated net of deferred loan fees. Nonaccrual loans included as loans carrying a zero yield.
(2) Calculated based on carrying value.
(3) Includes FHLB stock at cost and term deposits with other financial institutions.
(4) Net interest income divided by average interest-earning assets.

Interest Income

Total interest income increased $0.1 million to $1.0 million for the three months ended September 30, 2018, as compared to $0.9 million for the three months ended September 30, 2017, due to an increase in average portfolio loan balances of $4.2 million to $70.0 million as of September 30, 2018, as compared to $65.6 million as of September 30, 2017.

Interest Expense

Interest expense increased by $0.1 million to $0.3 million for the three months ended September 30, 2018 from $0.2 million for the three months ended September 30, 2017, primarily due to higher average deposit balances, which were used to fund asset growth.

The Bank's overall cost of funds, including noninterest-bearing deposits, was 1.32% for the three months ended September 30, 2018, up from 1.04% for the three months ended September 30, 2017, primarily due to an increase in money market and time deposit interest rates.

Net Interest Income

Net interest income for the three months ended September 30, 2018 of $0.7 million was relatively flat with net interest income for the three months ended September 30, 2017.

Our net interest rate spread, which is the difference between the interest rate earned on interest-earning assets and the interest rate paid on interest-bearing liabilities, decreased 21 basis points to 3.25% for the three months ended September 30, 2018, as compared to 3.46% for the three months ended September 30, 2017. Our net interest margin, which is net interest income expressed as a percentage of our average interest-earning assets, decreased 21 basis points to 3.31% for the three months ended September 30, 2018, as compared to 3.52% for the three months ended September 30, 2017. The decrease in the net interest rate spread and net interest margin primarily reflected the impact on interest expense from higher interest rates on money market and time deposits.

Provision for Portfolio Loan Losses

There was no provision expense during the three months ended September 30, 2018 or for the three months ended September 30, 2017.

Noninterest Income

The components of noninterest income for the three months ended September 30, 2018 and 2017 were as follows:

			Increase / (Decrease)	
	2018	2017	Amount	Percentage
		(Dollars in Thousands)		
Service charges and fees	$17	$23	$ (6)	(26.1)%
Gain on sale of loans held-for-sale	52	14	38	271.4%
Other	9	10	(1)	(10.0)%
Total	$78	$47	$31	66.0%

Noninterest income for the three months ended September 30, 2018 increased $31,000 to $78,000 from $47,000 for the three months ended September 30, 2017, primarily due to increased gains on the sale of loans held-for-sale.

The Bank expects gains on sales of loans held-for-sale to continue to contribute towards our noninterest income in the future, as the Bank continues to emphasize the business activity of internally originating mortgage loans to be sold and may increase participation in government programs relating to commercial business loans originated to be sold.

Noninterest Expense

The components of noninterest expense for the three months ended September 30, 2018 and 2017 were as follows:

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percentage
		(Dollars in Thousands)		
Salary and benefits	$427	$377	$ 50	13.3%
Occupancy and equipment	87	61	26	42.6%
Data processing	82	126	(44)	(34.9)%
Regulatory assessments	23	13	10	76.9%
Professional fees	184	69	115	166.7%
Other	95	75	20	26.7%
Total	$898	$721	$177	24.5%

Noninterest expense increased $0.2 million to $0.9 million for the three months ended September 30, 2018, from $0.7 million for the three months ended September 30, 2017, primarily due to increased salary and benefits and professional fees associated with the new management team and growth strategy put in place in June 2018.

With the Bank's strengthened capital and asset quality positions, management expects to maintain its lower levels of risk-related operating expenses, including regulatory assessments, FDIC insurance costs and director & officer insurance costs, as well as to continue operating with lower levels of foreclosed asset and collection expenses.

Income Tax

The Bank recorded $19,000 in income tax benefits for the three months ended September 30, 2018, as compared to an income tax expense of $23,000 for the three months ended September 30, 2017.

Comparison of Results of Operations for the Nine Months Ended September 30, 2018 and 2017

General

Net loss for the nine months ended September 30, 2018 was $14,000 compared to a net income for the nine months ended September 30, 2017 of $0.5 million. The Bank's return on average total assets ratio and return on average stockholders' equity ratio (both annualized) were (0.02)% and (0.20)%, respectively, for the nine months ended September 30, 2018, compared with 0.80% and 8.40% respectively, for the nine months ended September 30, 2017. Net income for the nine months ended September 30, 2018 decreased $0.5 million as compared to net income in the same period in 2017, primarily due to a $0.3 million income tax benefit recognized during the nine months ended September 30, 2017 as a result of the reversal of the Bank's valuation allowance that had been previously recorded against the deferred tax asset. Net income for the nine months ended September 30, 2018 was also impacted by higher salary and employee benefit expenses, somewhat offset by higher net interest income and higher gains on sale of loans held for sale.

Net interest income increased during the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily due to the impact of increased portfolio loans somewhat offset by higher deposit balances to fund asset growth, which contributed to higher interest expense as compared to the same period last year.

Noninterest income increased slightly during the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily due to higher gains on sale of loans held-for-sale, somewhat offset by lower service charges and fee income. Noninterest expense increased during the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily due to increased salaries and employee benefits and expenses associated with the new management team and strategic growth plans.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth certain information for the nine months ended September 30, 2018 and 2017. The average yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	Nine Months Ended September 30,					
	2018			2017		
	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
			(Dollars in Thousands)			
Interest-earning assets:						
Loans[(1)]	$68,878	$ 2,372	4.59%	$67,438	$ 2,378	4.66%
Investment securities[(2)]	14,370	477	4.42%	10,290	271	3.51%
Other interest-earning assets[(3)]	4,959	84	2.25%	6,745	62	1.22%
Total interest-earning assets	88,207	2,933	4.43%	84,473	2,711	4.25%
Noninterest-earning assets	5,070			4,194		
Total assets	$93,277			$88,667		
Interest-bearing liabilities:						
Interest-bearing demand accounts	$ 3,313	$ 12	0.46%	$ 2,840	$ 10	0.48%
Savings deposits and Money market accounts	38,474	350	1.21%	34,124	226	0.88%
Time deposits	26,418	312	1.58%	28,224	296	1.40%
Federal Home Loan Bank Advances	5,482	74	1.77%	4,810	55	1.54%
Total interest-bearing liabilities	73,687	748	1.35%	69,998	587	0.98%
Noninterest-bearing liabilities	10,407			10,188		
Total liabilities	84,094			80,186		
Total stockholders' equity	9,183			8,481		
Total liabilities and stockholders' equity	$93,277			$88,667		
Net interest income		$ 2,185			$ 2,124	
Net interest spread			3.25%			3.27%
Net interest-earning assets	$14,520			$14,475		
Net interest margin[(4)]			3.30%			3.32%
Average interest-earning assets to average interest-bearing liabilities		119.70%			120.68%	

(1) Includes portfolio loans and other loans. Calculated net of deferred loan fees. Nonaccrual loans included as loans carrying a zero yield.
(2) Calculated based on carrying value.
(3) Includes FHLB stock at cost and term deposits with other financial institutions.
(4) Net interest income divided by average interest-earning assets.

Interest Income

Total interest income increased $0.2 million to $2.9 million for the nine months ended September 30, 2018, as compared to $2.7 million for the nine months ended September 30, 2017, primarily due to increased interest income from the investment securities portfolio, due to $4.1 million in higher average balances outstanding. Interest income on the loan portfolio was unchanged between the two periods as average loan balances were relatively unchanged.

Interest Expense

Interest expense increased by $0.2 million to $0.7 million for nine months ended September 30, 2018 from $0.6 million for the nine months ended September 30, 2017, primarily due to higher average balances in the deposit portfolio, which was used to fund the increase in investment securities and decrease in FHLB advances.

The Bank's overall cost of funds was 1.19% for the nine months ended September 30, 2018, compared to 0.98% for the nine months ended September 30, 2017.

Net Interest Income

Net interest income increased $0.1 million to $2.2 million for the nine months ended September 30, 2018, from $2.1 million for the nine months ended September 30, 2017, primarily due to the increased investment securities balances, offset by the higher deposit balances, which were used to fund the asset growth.

Our net interest rate spread, which is the difference between the interest rate earned on interest-earning assets and the interest rate paid on interest-bearing liabilities, decreased to 3.25% for the nine months ended September 30, 2018 from 3.27% at September 30, 2017. Our net interest margin, which is net interest income expressed as a percentage of our average interest-earning assets, decreased 2 basis points to 3.30% for the nine months ended September 30, 2018, as compared to 3.32% for the nine months ended September 30, 2017.

Provision for Portfolio Loan Losses

Provision expense was $19,000 during the nine months ended September 30, 2018, compared to provision expense of $42,000 for the nine months ended September 30, 2017. The low level of provision expense during each of the nine months ended September 30, 2018 and 2017, primarily reflected solid economic conditions in the Bank's markets, which have led to lower levels of charge-offs in recent years. The Bank experienced a net recovery of $0.1 million during the nine months ended September 30, 2018, compared to a net charge of $11,000 during the nine months ended September 30, 2017.

Noninterest Income

The components of noninterest income for the nine months ended September 30, 2018 and 2017 were as follows:

			Increase / (Decrease)	
	2018	**2017**	**Amount**	**Percentage**
		(Dollars in Thousands)		
Service charges and fees	$ 54	$ 82	$ (28)	(34.1)%
Gain (loss) on sale of securities	(17)	—	(17)	(100.0%)
Gain on sale of loans held-for-sale	124	75	49	65.3%
Other	31	31	—	0.00%
Total	$192	$188	$ 4	2.1%

Noninterest income for the nine months ended September 30, 2018 of $2.2 million was relatively flat with noninterest income for the nine months ended September 30, 2017.

The Bank expects gains on sales of loans held-for-sale to continue to contribute towards our noninterest income in the future, as the Bank continues to emphasize the business activity of internally originating mortgage loans to be sold. Future gains may also include gains for the participation in government programs relating to commercial business loans originated to be sold.

Noninterest Expense

The components of noninterest expense for the nine months ended September 30, 2018 and 2017 were as follows:

	2018	2017	Increase / (Decrease) Amount	Increase / (Decrease) Percentage
	(Dollars in Thousands)			
Salary and benefits	$1,207	$1,095	$ 112	10.2%
Occupancy and equipment	268	192	76	39.6%
Data processing	231	335	(104)	(31.0)%
Regulatory assessments	49	55	(6)	(10.9)%
Professional fees	341	115	226	196.5%
Other	284	209	75	35.9%
Total	$2,380	$2,001	$ 379	18.9%

Noninterest expense increased $0.4 million to $2.4 million for the nine months ended September 30, 2018, from $2.0 million for the nine months ended September 30, 2017. The increase in noninterest expense during the first nine months of 2018, as compared with the same period in 2017, primarily reflected increased salary and benefits, occupancy and equipment and outside professional services due to the hiring of a new management team and the implementation of a new growth strategy.

With the Bank's strengthened capital and asset quality positions, management expects to maintain its lower levels of risk-related operating expenses, including regulatory assessments, FDIC insurance costs and director & officer insurance costs.

Income Tax

The Bank recorded an income tax benefit of $8,000 for the nine months ended September 30, 2018, compared to an income tax benefit of $0.3 million for the nine months ended September 30, 2017. During 2017, the Bank reversed the previously recorded valuation allowance of $0.3 million on deferred tax assets due to the expectation of future taxable income.

Liquidity

The Bank maintains a liquidity position it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. The Bank relies on a number of different sources of funds in order to meet its liquidity demands. The Bank's primary sources of funds are increases in deposit accounts and cash flows from loan payments, sales of residential loans in the secondary market, sales of investment securities, and borrowings. The scheduled amortization of loans and investment securities, as well as proceeds from borrowings, are generally predictable sources of funds. Other funding sources, however, such as inflows from new deposits, mortgage and investment securities prepayments and mortgage loan sales are less predictable and greatly influenced by market interest rates, economic conditions and competition.

We expect the Bank's primary sources of funds to continue to be sufficient to meet demands, although we can give no assurances, and the Bank has contingent liquidity capacity available to meet potential funding requirements, including availability from the FHLB, the Federal Reserve Bank of Atlanta and other institutional sources as discussed below. Management increased, and plans to continue to increase, the Bank's higher interest-earning assets.

As of September 30, 2018, the Bank had additional borrowing capacity of $20.9 million with the FHLB. The Bank had a $2.0 million daylight overdraft capacity at the Federal Reserve Bank of Atlanta as of September 30, 2018. Additionally, as of September 30, 2018, the Bank had liquidity sources through a $5 million line of credit for repurchase and reverse repurchase transactions, as well as one $2.5 million, one $1.5 million, and three $1.0 million lines of credit. As of September 30, 2018, the Bank had no outstanding borrowings against the daylight overdraft capacity or any of the aforementioned lines of credit with private financial institutions. Unpledged investment securities were approximately $12.7 million as of September 30, 2018.

The Bank utilizes brokered deposits to meet funding needs at interest rates typically equal to or less than the Bank's local market rates. As of September 30, 2018, the Bank had brokered deposits of $8.0 million, and expects it will continue to utilize such deposits, as necessary, to supplement retail deposit production. Additionally, the Bank has the ability to utilize a non-brokered Internet certificate of deposit listing service to meet funding needs at interest rates typically equal to or less than the Bank's local market rates. As of September 30, 2018, the Bank had no deposits from this service, however, we may use this program, as necessary, to supplement retail deposit production.

Threats to our liquidity position and capital levels include rapid declines in deposit balances due to market volatility caused by major changes in interest rates or negative public perception about the Bank or the financial services industry in general. In addition, the amount of investment securities that would otherwise be available to meet liquidity needs is limited due to the collateral requirements of our long-term debt. Additionally, the collateral requirements of the FHLB debt may be supplemented with investment securities collateral and the Bank is required to collateralize any prepayment penalty amount, if applicable, using investment securities.

For the first nine months of 2018, cash and cash equivalents increased $0.6 million to $5.3 million as of September 30, 2018, as compared to $4.7 million as of December 31, 2017. Primary sources of cash flows included net increases in deposits of $6.4 million. Primary uses of cash included the funding of $1.8 million in portfolio loan growth, an increase in warehouse loans held for investment of $2.1 million and a decrease in FHLB advances of $2.8 million.

For the first nine months of 2017, cash and cash equivalents decreased $0.6 million to $7.9 million as of September 30, 2017, as compared to $8.5 million as of December 31, 2016. Primary sources of cash flows included net increases in deposits of $0.5 million, net decreases in portfolio loans of $2.5 million, and a preferred stock issuance of $1.0 million. Primary uses of cash flow were a $3.5 million net increase in investment securities, a decrease in FHLB advances of $0.7 million and dividends paid of $0.1 million.

BUSINESS

Overview

BankFlorida is a Florida state-chartered community bank based in Palm Beach Gardens, Florida. We currently engage in a general commercial and personal banking business with an emphasis on serving the banking needs of small- to medium-sized businesses and individuals in our market. We provide customers with a strong level of personalized and knowledgeable service from highly experienced employees, while at the same time offering them a full range of banking services and the convenience of automated systems.

We currently operate out of our corporate headquarters in Palm Beach Gardens, Florida. In May 2018, we acquired a vacant branch facility in Jupiter, Florida, to which we plan to relocate our main office in the future, subject to the receipt of regulatory approvals. Our primary market area is the region consisting of Palm Beach, Broward, and Martin counties. This area has over 3.6 million residents, and a Bloomberg analysis of 2016 U.S. Census data reports that Palm Beach has the second-highest level of passive income (a measure of wealth) of any metropolitan district in the United States.

In June 2018, we announced our decision to restructure our executive leadership team and board of directors as we prepare for our next phase of growth. We hired the executive management team of the former Atlantic Coast Financial Corporation (NASDAQ: ACFC), the Jacksonville-based bank holding company for Atlantic Coast Bank, which we refer to as Atlantic Coast, including John K. Stephens, Jr., who joined the Bank as Chief Executive Officer, Tracy L. Keegan, who joined as President and Chief Financial Officer, and Phillip S. Buddenbohm, who joined as Chief Lending Officer. Stephens and Keegan also joined our board of directors. Our new management team has significant banking experience and relationships throughout the entire state of Florida and a proven track record of creating a high-growth, high-performing bank. Our new management team intends to use the proceeds of the capital raise to emulate the successful strategy they implemented at Atlantic Coast, significantly growing the bank through the hiring of select individuals with the goal of increasing loans, deposits and market presence.

Our executive management team led the highly successful turnaround and growth of Atlantic Coast. Atlantic Coast had been under pre-existing consent orders from the Federal Reserve and OCC, a supervisory agreement from the OTS and a "troubled condition" designation from the OCC and the OTS. Our executive management team resolved the outstanding regulatory orders, while also growing total loans at a compound annual growth rate of 18% from 2013 to the first quarter of 2018, deposits at 8% from 2013 to the first quarter of 2018, and core earnings at 64% from 2014 to the first quarter of 2018. From its recapitalization in November 2013 at $3.75 per share until its sale to Ameris Bank which closed in May 2018 at $10.94 per share, the management team generated a 27% annual IRR to Atlantic Coast stockholders.

Our Competitive Strengths and Investment Highlights

- **Proven Leadership Team.** Our leadership team consists of senior managers with an average of over 30 years of experience in banking. Each of the members of our senior management team has deep knowledge of the Florida banking market. Most recently, our executive leadership team led the recapitalization, turnaround and growth of Atlantic Coast, delivering, as described above, a 192% total return to stockholders over approximately 4.5 years. In addition, we have a highly experienced board of directors with strong local ties to the Florida market. We believe the experience, relationships, and entrepreneurial culture of our management team will be a key driver of our growth.
- **Favorable Market Dynamics.** Florida is the fifth largest deposit market in the United States and the third most populous state. In 2018, it was named the second-ranking "Best State for Business" in the United States by Chief Executive Magazine, and the Tax Foundation named Florida the number one business tax climate in the Southeast in 2019. According to S&P Global Market Intelligence and Federal Reserve Economic Data, Florida ranks well above average in projected population growth from

2019 to 2024, 2019 population density, housing price appreciation from 2011 through June 2018, and GDP growth from 2011 through 2017. With our headquarters in Palm Beach Gardens, we consider our current primary market area to be Palm Beach, Broward, and Martin counties. This constitutes one of the most populous and wealthiest regions in the state and is driven by a diverse range of industries. In addition to our existing footprint, we intend to expand over time into other large and highly attractive growth markets in Florida, excluding the South Florida counties of Miami-Dade and Monroe. The five largest MSAs in Florida are Miami-Fort Lauderdale-West Palm Beach, Tampa-St. Petersburg-Clearwater, Jacksonville, Orlando-Kissimmee-Sanford, and North Port-Sarasota-Bradenton. These markets and the state of Florida in general are large banking markets, enjoy excellent demographics, have low unemployment and have experienced strong housing trends. We believe these markets, excluding the South Florida portion of the Miami-Fort Lauderdale-West Palm Beach MSA, present attractive opportunities for us.

MSA	June 30, 2018 Deposits ($B)	November 2018 Unemployment Rate	2019 – 2024 Proj. Population Growth	2011 – 2018 House Price Appreciation
Miami-Fort Lauderdale-West Palm Beach	$ 237	3.1%	6.6%	81.4%
Tampa-St. Petersburg-Clearwater	65	3.0%	6.8%	74.4%
Jacksonville	62	2.9%	6.9%	49.5%
Orlando-Kissimmee-Sanford	51	2.7%	8.1%	67.0%
North Port-Sarasota-Bradenton	21	2.9%	7.5%	81.2%
Florida	565	3.1%	6.8%	67.4%
USA	10,879	3.5%	3.6%	37.7%

Source: S&P Global Market Intelligence, Federal Reserve Economic Data. House Price Appreciation data through June 2018.

- **Underserved Market.** Despite Florida's highly attractive business and population demographics, the number of community banks serving this dynamic state has decreased dramatically. According to the FDIC, as of December 31, 2007, there were 284 commercial banks headquartered in Florida. Due to significant acquisition activity as well as bank failures during the financial crisis, there were only 109 remaining commercial banks headquartered in Florida as of January 17, 2019. Of those, only 23 are community banks with assets between $500 million and $2 billion as of September 30, 2018 and only 11 are based outside of South Florida in our primary markets and are not the target of a pending acquisition. We anticipate meeting the needs of borrowers and other customers who look to bank with a community bank in the $500 million to $2 billion asset range.
- **Strong Capitalization and Clean Balance Sheet.** We are an established bank headquartered in a highly attractive banking market. As of September 30, 2018, we met the capital ratios of a well-capitalized bank, with a Tier 1 risk-based capital ratio of over 13% and a total risk-based capital ratio of over 14%. Furthermore, we have a clean balance sheet with a nonperforming assets/total assets ratio of just 1.35% as of September 30, 2018. We believe that our existing enterprise, when combined with our new management team and the capital from this offering, will be well suited to serve as a platform for organic growth and opportunistic acquisitions.
- **Significant Organic Growth Opportunity.** We believe we can grow because of our management team's past experience and substantial valuable relationships in the Florida market. We intend to grow our business organically in a focused and strategic manner by leveraging the relationships and expertise of our experienced management team and board of directors to capitalize on the opportunities we see in our target markets. We believe that our ability to combine the sophisticated products and services of a larger bank with the personalized, flexible and high-touch service of a community bank tailored to the needs of local clients enhances our ability to effectively compete in our markets. While we expect to be immediately able to grow within our existing Palm Beach footprint, we intend to hire experienced banking professionals to grow both loans and deposits, subject to the completion of this offering. We

expect to further enable our newly hired banking professionals to serve their customers by opening new loan production offices in other communities with favorable economic and demographic characteristics to help drive long-term growth, emulating our management team's proven strategy from Atlantic Coast. Due to the extensive experience of our management team in Florida markets, we know many of the talented banking professionals that could join our bank as the disruption caused by the continued bank consolidation in Florida presents a highly favorable environment for us to hire additional talented producers.

- **Potential for Strategic Acquisitions.** In addition to our plan for organic growth, subject to regulatory approval and a favorable resolution of our BSA Consent Order, we believe there is significant opportunity for strategic acquisitions of branches or whole banks in our target markets. We believe that the consolidation of community banks will continue and that, with the additional capital from this offering, an exchange-listed security, and our highly experienced management team, we will be well positioned to take advantage of acquisition opportunities in our target markets. We will evaluate acquisitions that we believe would be complementary to our existing business, with an emphasis on branch acquisitions. As we grow, we expect to use branch acquisitions to increase funding and to grow our footprint and market presence in select geographies. Despite significant bank consolidation in Florida, an abundance of small, sub-scale banks remain in the state, with 34 banks with between $50 million and $250 million in assets and an additional 24 banks with between $250 million and $500 million in assets (excluding additional banks based in the South Florida counties of Miami-Dade and Monroe).[2] We will seek to be an acquirer of choice for these smaller banks, as existing known acquirers are mostly focused on larger targets. In addition, because our stock will be listed on the Nasdaq Capital Market, we will have access to public capital. Other potential small and mid-tier bank acquirers (Florida banks up to $2 billion in assets) are either private or trade on an over-the-counter (OTC) market.

Market Opportunity

We believe that we are well positioned to take advantage of opportunities available in the markets we serve. We consider our primary target market area to be the entire state of Florida excluding the South Florida counties of Miami-Dade and Monroe, with a focus on large vibrant metropolitan areas.

Florida Market Area

Florida is the fifth largest deposit market in the United States, with $565 billion in deposits, behind only New York, California, Texas and South Dakota. Florida is currently the third most populous state in the country and its population is projected by S&P Global Market Intelligence to grow 6.8% through 2024, as compared to just 3.6% for the United States as a whole. The GDP of Florida in 2017 was $976 billion, making it the fourth largest state economy in the United States.

Tourism, industry, construction, international banking, biomedical and life sciences, healthcare research, simulation training, and aerospace and defense have all contributed to Florida's economic development. In 2018, the Florida legislature passed an $89 billion budget, the largest in state history. Chief Executive Magazine named Florida the second-ranking "Best State for Business" in 2018. Furthermore, the Tax Foundation ranked Florida the number one business tax climate in the Southeast in 2019. Florida's tax climate is also highly favorable for individuals, as there is no personal income tax in the state. The recent U.S. tax reforms limiting state and local tax deductions on federal taxes further increase Florida's relative appeal over high tax states.

As discussed above, the number of banks serving Florida has decreased dramatically. As the chart below shows, as of December 31, 2007, there were 284 commercial banks headquartered in Florida. As of January 17,

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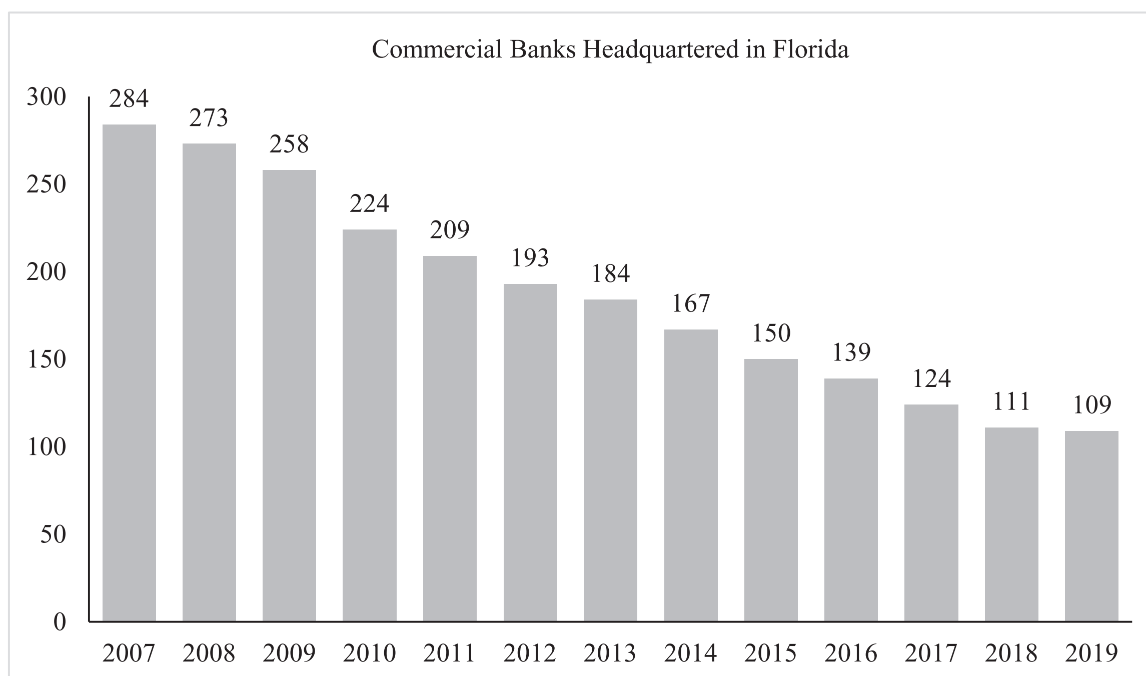
[2] Source: S&P Global Market Intelligence. Asset data is as of September 30, 2018; bank count is as of January 17, 2019.

2019, there were only 109 remaining commercial banks headquartered in Florida. Of those, only 23 are community banks with assets between $500 million and $2 billion as of September 30, 2018 and only 11 are based outside of South Florida in our primary markets and are not the target of a pending acquisition.



Source: FDIC; 2019 data as of January 17, 2019.

We believe that our ability to provide the high-touch, relationship-based, and personalized service of a small community bank combined with the sophisticated banking products, services and solutions of larger financial institutions will allow us to stay competitive. Furthermore, we intend to target segments of the market that many other banks do not focus on. For example, many small community banks focus on extending loans of less than $1 million while larger banks with $5 billion or more in assets typically focus on extending loans of $15 million or more. Similar to Atlantic Coast, our focus will be on serving businesses that need loans in the $3 million to $12 million range.

Our Current Primary Market

Our immediate surrounding market area of Palm Beach, Broward, and Martin counties has over 3.6 million residents, and a Bloomberg analysis of 2016 U.S. Census data reports that Palm Beach has the second-highest level of passive income (a measure of wealth) of any metropolitan district in the United States.

Palm Beach, Broward, and Martin counties are comprised of a large number of small- to medium-sized businesses. These businesses can benefit from a reliable, professional banking relationship. Large national and regional banks have continued to consolidate and centralize decision making and servicing into out-of-market locations. We believe that local access to decision makers gives us an advantage over the many local banking choices. We plan to differentiate our brand by bringing relationship building, decision making, and ongoing service closer to our clients.

If the three county region were considered a single MSA, it would be the second most populous in Florida, behind only Miami. It also would be the second-largest deposit market in Florida, with $113 billion in deposits, behind only Miami. The area is one of Florida's wealthiest, with an estimated median household income of $61,847 as of January 2019 and an unemployment rate of just 2.9% as of November 2018.

Primary economic engines for the area are real estate development, tourism and recreation, business services, retirement services, specialty manufacturing, healthcare, and education. Additionally, the region's technology sector is growing rapidly, as evidenced by the new Scripps Research Institute that is collaborating with Florida Atlantic University and the University of Florida. According to S&P Global Market Intelligence, the primary market area has a slightly older median population than Florida as a whole. However, the area has a rapidly growing millennial and young family population, according to the Palm Beach Post. The market has excellent public and private school options, plus a wide range of choices for post-high school education. The combined area also has markedly fewer residences with household income below poverty guidelines according to the American Community Survey.

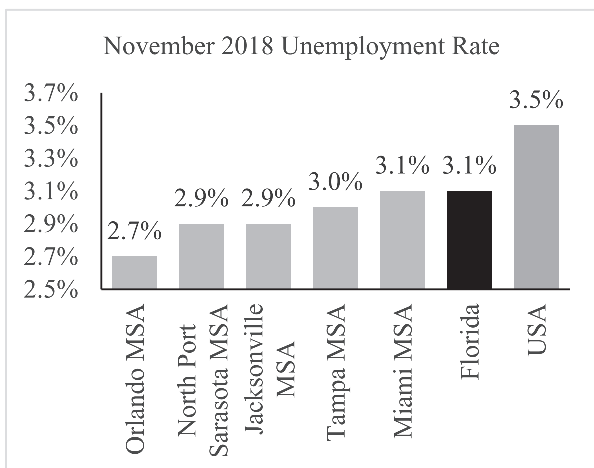
While Palm Beach County is driven by tourism, healthcare and real estate development, Broward County has a larger manufacturing and wholesale distribution sector, driven in large part by its transportation industry. Fort Lauderdale International Airport is ranked as the nation's 21st busiest airport in terms of traffic, with 29 million passengers in 2016, up 8.4% from 2015, according to FAA Annual Statistics. Port Everglades seaport is a primary gateway for both international trade and cruise vacations. In 2016, Port Everglades was the third-busiest cruise port in the world, accommodating 3.7 million passengers according to Cruise Industry News. It was also the busiest container port in Florida and 10th-busiest in the United States, moving more than 1 million TEUs (a unit of cargo capacity) in fiscal year 2017, according to the Port Everglades Department.

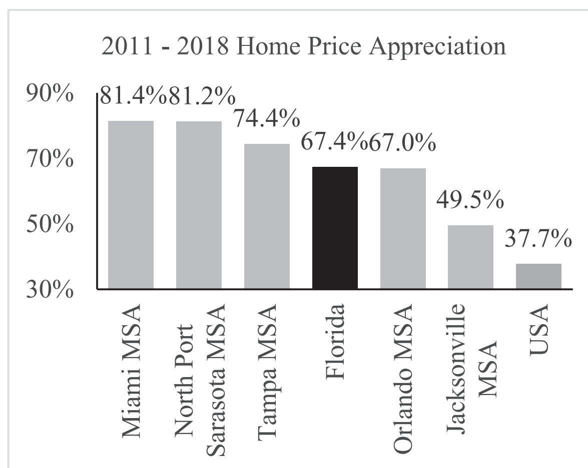
Martin County is significantly smaller than Palm Beach County or Broward County. The county has a variety of custom boat and yacht builders, as well as other marine-related businesses. Agriculture is also a major contributor, and Martin County ranks in the top ten counties in the state for citrus and vegetable production. Other important contributors to Martin County's economy are hospitality and tourism, government, retail, medical, and service businesses.

Other Growth Markets

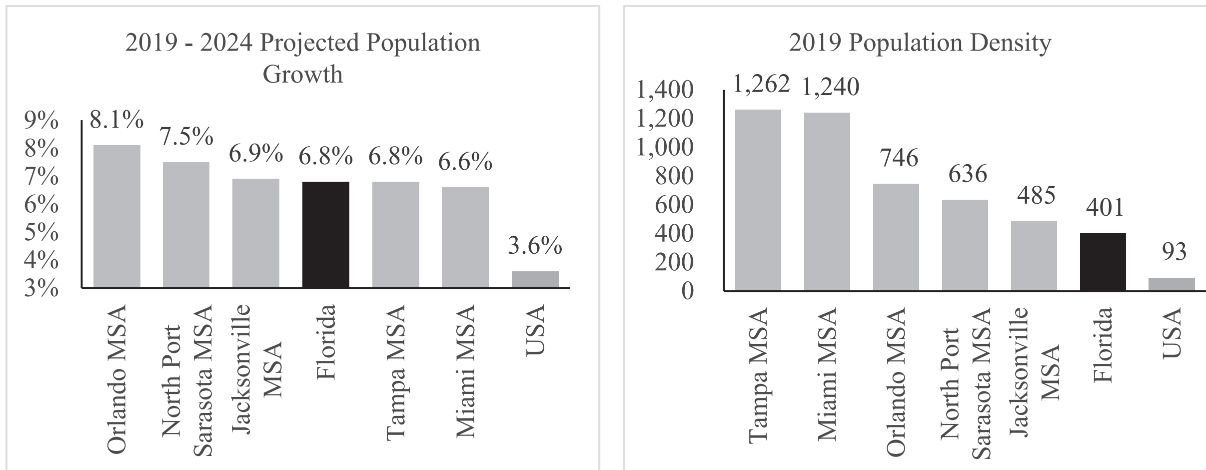
Although the majority of our operations are currently in our primary market area of Palm Beach, Broward, and Martin counties, we intend to grow throughout other high growth Florida markets.

The tables below depict some of the favorable demographic and economic characteristics of the largest MSAs in Florida. We believe these markets, excluding the city of Miami within the Miami-Fort Lauderdale-West Palm Beach MSA, present attractive opportunities for us.





Source: S&P Global Market Intelligence, Federal Reserve Economic Data. House Price Appreciation data through June 2018.



Source: S&P Global Market Intelligence, Federal Reserve Economic Data.

The Miami-Fort Lauderdale-West Palm Beach MSA is Florida's largest in both deposits as of June 30, 2018 and 2019 population. The MSA benefits from a very high 2019 population density of 1,240 people per square mile, significantly greater than the national average of 93. It also has robust 2019 business density, with 432 businesses per 10,000 people, well above the national average of 379. In 2016, Miami International Airport was the tenth-busiest airport in terms of passenger traffic, with 44.6 million passengers, and the fourth-busiest in terms of cargo volume, with 2 million metric tons of freight and mail moved. This MSA also is served by major commercial and passenger transportation hubs, such as Fort Lauderdale International Airport, Port Miami, and Port Everglades. Major contributors to the area's economy include hospitality and tourism, trade and commerce, real estate and construction, professional and business services, finance and insurance, healthcare, and information services.

The Tampa-St. Petersburg-Clearwater MSA is Florida's second-largest in both deposits as of June 30, 2018 and 2019 population. In 2019, the MSA is the most densely populated MSA in the state with 1,262 people per square mile. Tampa was ranked fifth among major metropolitan areas in the United States for job growth from August 2016 through August 2017, according to the Bureau of Labor Statistics. It is home to several universities, including the University of South Florida, a leader in innovation that ranked fifth in the United States and twelfth worldwide among public universities in the number of U.S. patents generated in 2017. Primary economic drivers for the area are defense and security, information technology, manufacturing, financial and professional services, marine science, life sciences, hospitality and tourism, and healthcare.

The Jacksonville MSA is Florida's third-largest market by deposits as of June 30, 2018 and fourth-largest by 2019 population. Its 2019 median household income of $61,913 is Florida's fourth-highest. Jacksonville's interconnected transportation network, including airports, rail facilities and JAXPORT, a top container port complex, have made Jacksonville a hub for trade and logistics and earned it designation as one of the top cities for intermodal access by Global Trade Magazine in 2017. In addition to trade and logistics, major drivers of the economy include finance and insurance, real estate and construction, professional and business services, education, healthcare and life sciences, and government.

The Orlando-Kissimmee-Sanford MSA is Florida's fourth-largest market by deposits as of June 30, 2018 and third-largest by 2019 population. Its population is projected by S&P Global Market Intelligence to grow over 8% through 2024, one of the highest growth rates in the state. The MSA is ranked fourth on Forbes' 2018 list of fastest-growing American metropolitan areas in terms of population, employment, wages, economic output and home prices. Though typically known as a tourist destination with Walt Disney World and other attractions, Orlando's economy has a more diverse foundation, including real estate and construction, professional and business services, healthcare, government and trade.

The North Port-Sarasota-Bradenton MSA is Florida's fifth-largest market in both deposits as of June 30, 2018 and 2019 population. Though North Port-Sarasota-Bradenton is significantly smaller than the top four markets, its 2019 median household income of $59,884 is one of the highest in the state and its November 2018 unemployment rate of 2.9% is one of the lowest in the state. It ranked sixth on the Milken Institute's 2017 study of best-performing cities in job creation, wage gains, and technology developments. Major drivers of the economy include real estate and construction, healthcare, professional and business services, tourism and trade.

Our Products and Services

We focus on serving the banking needs of small and medium-sized businesses, as well as business owners, professionals, real estate owners, and investors. We offer traditional business banking products and services geared towards serving the banking needs of our target clients. Loan products consist of commercial real estate loans, commercial and industrial loans, residential mortgage loans, loans guaranteed by the Small Business Administration ("SBA"), construction loans, and, to a lesser extent, consumer loans, including installment loans, home equity loans and home equity lines of credit. Our deposit products include noninterest-bearing demand deposit accounts, interest-bearing demand accounts, money market accounts, regular savings accounts, and certificates of deposit. We generate deposits from local businesses and residents, resulting in a stable lower-cost core deposit base to fund our lending activities.

We also offer fee-based services to our customers, including account analysis and other cash management products and services. We support the needs of our business customers with wire transfer services, remote deposit capture, mobile banking, automated clearinghouse ("ACH") transaction support, electronic bill payment and presentation, automatic transfer from deposit accounts, cash and coin ordering, cashier's checks, and positive pay services. We also provide courier services to select business customers through the use of an outside, bonded courier service for limited cash and non-cash documents and transactions. We have established relationships with correspondent banks and other service providers in order to avail customers of services that we do not provide directly.

Sources of Business and Growth

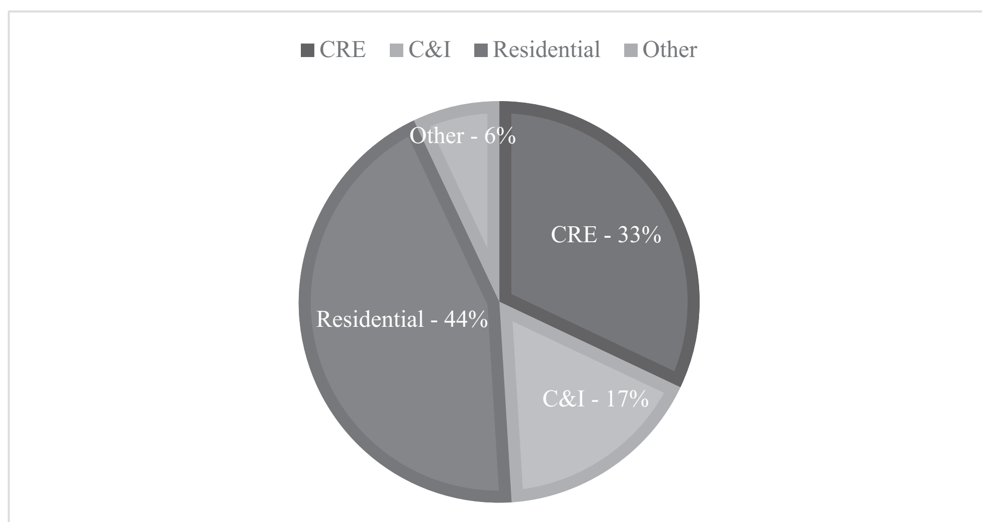
To effectively deliver a broad range of commercial banking products and services, we will leverage the long-term, in-market experience of our leadership team and key employees. When coupled with local connections of board members and the favorable local economic and competitive environment, we believe that we are in a position to respond promptly to the dynamic needs of our customers.

In general, we intend to increase market share by continuing to forge long-lasting customer relationships and achieving a high level of customer retention as well as client referrals. To expand our efforts, we plan to recruit experienced business development officers with established relationships, proven business generation capabilities, and in-market experience. These individuals will deploy their knowledge of and connections within our market areas, and will develop quality relationships by acting as consultative, value-added advisors to our prospects and clients. We expect that the majority of our newly-hired business development officers will focus on commercial lending. We also will recruit business development officers who focus on SBA and USDA lending and residential lending to generate loans that can be sold in the secondary market. We also intend to hire additional professionals with proven track records of developing deposit relationships, in order to fund our loan growth. We expect to establish strategic alliances and a referral program with third parties, such as professional services providers, to assist our customers in finding solutions and fulfilling their banking needs.

Lending Activities

We actively originate commercial real estate loans, commercial business loans, multi-family real estate loans, one-to-four family residential first and second mortgage loans, home-equity loans, and automobile and

other consumer loans. As illustrated below, our loan portfolio as of September 30, 2018 was comprised of 44% residential loans, 33% commercial real estate and 17% commercial and industrial loans:



With the new capital raised in this offering and a new leadership team, we expect that commercial banking, particularly commercial real estate loans and commercial and industrial loans, will become a significantly larger component of our portfolio, as we will primarily view our bank as a business bank. We expect that residential lending will become a smaller component of our portfolio, particularly as we begin to sell the majority of our residential mortgage loans into the secondary market.

At September 30, 2018, the maximum amount we could extend to any one borrower and related entities under applicable regulations was approximately $2.3 million. At September 30, 2018, there were no portfolio loans or group of portfolio loans to related borrowers with outstanding balances in excess of this amount. With the capital from this offering, we expect our legal lending limit to increase to approximately $12.5 million.

Commercial Loans

We originate commercial real estate loans and commercial and industrial loans with small- to medium-sized businesses for the purposes of purchasing fixed assets, financing equipment, and providing working capital.

We historically focused on the origination of loans secured by owner-occupied and non-owner occupied properties, such as small retail establishments and office buildings, located in our primary market areas. We view such loans favorably since we have not historically experienced significant losses related to loans secured by this type of collateral. Owner-occupied loans are typically smaller balance loans and the borrower, as the business owner, has a vested interest in the property and is not reliant on income from others to repay debt. These loans often lead to full customer relationships, with business deposits and guarantor personal deposits. We believe the market for small business lending is underserved due to the fragmented community bank competition and the lack of focus by the larger regional and national banks that dominate the market. In addition, we are developing a more robust treasury management suite of products aimed at small businesses in order to offer more full service banking services to commercial clients.

We intend to begin to focus more on originating non-owner-occupied commercial real estate loans. We expect to recruit experienced bankers with established relationships and strong local market knowledge. We anticipate that these bankers will originate high quality and credit-tenant backed commercial real estate lending opportunities on a highly selective basis. We expect to underwrite such loans within strict policy guidelines and subject to concentration limits. We do not intend to originate or purchase higher risk loans, such as land acquisition or development loans.

In keeping with our community banking philosophy, we have actively originated non-real estate commercial business and consumer loans as well. We originate commercial business loans to in-market business owners to provide working capital, inventory financing, or equipment financing. These loans are collateralized by non-real estate assets such as inventory, accounts receivable, and equipment. We consider commercial business lending to be an important component of our community banking model and intend to continue originating these loans consistent with our small business lending strategy.

We also intend to originate loans through the USDA, SBA 7(a), and SBA 504 Loan Programs. SBA 7(a) loans are guaranteed by the SBA up to 75% of the loan amount, up to a maximum guaranty of $3,750,000. We intend to sell the guaranteed portion of the 7(a) loan into the secondary market at a premium. We may earn up to 1% as a servicing fee on the amount sold. These loans are non-recourse, other than for an allegation of fraud or misrepresentation on the part of the lender. We generally retain the unguaranteed portion of these loans.

After the capital raise, we also intend to start a warehouse line of credit business, originating lines secured by one-to-four family residential loans originated by third-party originators under purchase and assumption agreements (warehouse loans held for investment). Warehouse lending uses mortgage bankers to originate one-to-four family residential mortgage loans for sale in the secondary market. The third-party originator sells the loans and servicing rights to investors in order to repay the outstanding balance on warehouse loans held for investment. We earn interest until the loan is sold and typically earn fee income as well. Loans originated within the warehouse lending program generally have commitments to purchase from investors, are sold with no recourse, and are sold with servicing released to the investor.

Residential Lending

Historically, residential mortgage lending has been a large component of our loan portfolio. We believe mortgage lending is an important element of our community bank model. As such, we expect the mortgage division will be an area of continued origination growth for us. However, we expect that residential mortgages will become a smaller component of our retained loan portfolio as we begin to sell the majority of these loans into the secondary market.

We underwrite one-to-four family residential loans based on the applicant's employment, income, credit history, and the appraised value of the subject property. We generally lend up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans and we require private mortgage insurance on all residential loans with a loan-to-value ratio in excess of 80%. These collateral requirements are intended to protect us from loss in the event of foreclosure. We set interest rates that are competitive with other local financial institutions and consistent with our return requirements.

The majority of our one-to-four family mortgage loans are secured by properties located in our market areas. Although the majority of our lending activity has focused on owner-occupied property, we also originate investor loans for one-to-four family properties. We typically employ stricter underwriting guidelines for residential mortgage loans secured by investment property. We do not originate interest-only residential mortgages, sub-prime loans, option-ARM loans, or other similar loans.

In 2016, we made a strategic decision to outsource our residential mortgage servicing. In May 2017, we transferred our residential servicing portfolio to Dovenmuehle Mortgage, Inc. Dovenmuehle is one of six servicers approved by the Federal Home Loan Bank ("FHLB"), providing us with the option to sell mortgages servicing-retained to the FHLB in the future. Given our size, we determined it would be more efficient to outsource mortgage servicing. Dovenmuehle provides us with access to a more robust servicing infrastructure and is better able to support the collection of payments, manage client inquiries, monitor insurance and taxes, provide force-placed insurance, and support agency and investor reporting.

To continue to grow originations, we intend to selectively hire loan officers with an established client base and an ability to generate new market opportunities. We also intend to leverage our branch, existing clients, and

other bank officers to capture new mortgage opportunities. We may also work selectively with mortgage brokers that can deliver credit appropriate business.

We have correspondent lending relationships through which we direct loans that we do not want to hold in our portfolio. We expect to increase the proportion of loans that we sell into the secondary market, and as a result, residential mortgages will become a smaller component of our retained loan portfolio.

Consumer Loans

We currently offer a variety of consumer loans, primarily home equity lines of credit and automobile loans. Consumer loans, as compared to business or commercial loans, are generally shorter in term and amortize monthly or have interest payable monthly.

Future production may include active marketing of auto and secured and unsecured consumer loans through our retail franchise. We believe originations of high quality consumer loans with strong yields will result from an increased emphasis on lending in our branch through improved training and new products. In order to mitigate potential asset quality and compliance risks, we will continue to use a centralized credit and compliance process for all commercial and consumer lending.

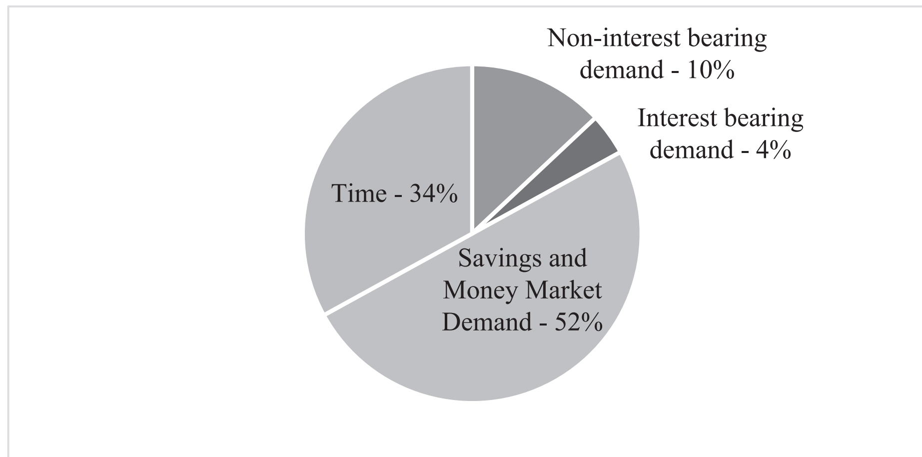
Deposits

We offer a variety of deposit accounts to consumers and businesses with a wide range of interest rates and terms. Deposits consist of noninterest-bearing and interest-bearing demand, savings and money market demand, and time deposit accounts. We rely primarily on competitive pricing policies, customer service and marketing to attract and retain these deposits. Additionally, we have purchased time deposit accounts from brokers at costs and terms that are comparable or better to time deposits originated in the branch office. Consistent with our management's experience at Atlantic Coast, we expect to recruit additional business development officers who focus on developing deposit relationships in order to support our loan growth.

We offer a variety of deposits, allowing us to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. We manage pricing of deposits to be consistent with overall asset and liability management, liquidity and growth objectives. We consider numerous factors, including: (i) the need for funds based on loan demand, current maturities of deposits, and other cash flow needs; (ii) rates offered by market area competitors for similar deposit products; (iii) current cost of funds and yields on assets; and (iv) the alternative cost of funds on a wholesale basis, in particular the cost of advances from the FHLB and short-term borrowings from securities sold under agreements to repurchase (repurchase agreements). Senior management regularly reviews interest rates as a part of asset-liability management actions. Based on historical experience, we believe our deposits are a relatively stable source of funds.

In order to meet our deposit needs as we grow, we intend to recruit experienced commercial relationship managers with existing deposit and loan relationships in our current market and the markets in which we expand. Additionally, we intend to restructure our operational responsibilities and revise our incentive plans to enhance our sales culture. Finally, we intend to enhance our treasury management platform and hire deposit specialists with higher balance deposit relationships in verticals with fewer credit needs.

A breakdown of our deposits as of September 30, 2018 is below:



Competition

The banking and financial services industry is highly competitive. The increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. As a growth-oriented business, we compete for loan and deposit customers with other commercial banks, savings institutions, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than we have.

Risk Management and Credit Policy

We believe that we have appropriate control systems in place to manage and monitor expanded lending activities. The Risk Committee of the board of directors meets periodically to monitor new loans, loan products and risk. On a quarterly basis, our Management Credit Committee and Risk Committee monitor concentration risk and concentration levels, including a discussion of the potential impact of regional and national economic trends. Going forward, our Management Risk Committee will review all new products and services, credit quality, interest rate risks and liquidity, and review all activities referred to it by the Management Credit Committee. The Board Risk Committee will meet periodically to review credit trends, liquidity, and all new products and services. The Board Risk Committee will also review all of our risk areas to ensure risks have been identified and appropriate controls are in place.

Individual Lending Limits

Business development officers maintain no lending authority. A credit officer or loan committee must approve all credit extensions. Our board of directors establishes lending authorities based on the individual credit officer's lending and loan underwriting experience. Going forward, loans which exceed an individual credit officer's lending authority may be approved using the combined authority of another credit officer on loan amounts up to and including $1.0 million. Going forward, our Management Credit Committee must approve any loan exceeding $1.0 million and our Management Risk Committee and our Board Risk Committee will review all relationships with significant aggregate exposure.

Loan Policy

We seek to maintain a diverse loan portfolio that balances concentration of credit risks across different industries, geographic markets, products, individuals, entities, and individuals. We have set concentration limits

for each segment and have developed an effective credit concentration monitoring process. The board reviews all concentrations on a quarterly basis. Our current Loan Policy is consistent with the guidance set forth by our primary regulator.

The Loan Policy establishes concentration limits and requires:

- Ongoing risk assessments to identify and monitor loan concentrations, paying particular attention to the real estate loan portfolio;
- Ongoing market analyses based on independent analyses from commercial real estate firms and regional real estate reports, together with management's own market knowledge and informal networks. The market analyses assist the board in determining whether the current lending strategies, underwriting guidelines, and credit concentrations remain appropriate; and
- Quarterly loan portfolio stress tests to quantify the impact of changing economic conditions on asset quality, earnings and capital. The quarterly loan stress testing is in addition to the annual independent capital stress testing.

Our board and management are responsible for the level of concentration risk we assume and undertake the following in overseeing concentration risk management:

- Conducts an annual review of the Loan Policy and approves credit exposure limits and ensures that these limits are aligned with our strategies and risk appetite; and
- Reviews and responds appropriately to quarterly credit concentration reports including our market analysis, summary concentration levels by type and subtype, recommended strategies to reduce concentrations, and summary changes in concentrations by type and subtype.

Investments

Our board of directors has adopted an investment policy to govern the nature and extent of investment activities. The structure of our investment portfolio is intended to provide liquidity for loan origination and to assist in maximizing earnings while managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk.

We are authorized to invest in various types of liquid assets, including U.S. Treasury Obligations, securities of various federal agencies and government sponsored enterprises, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, and federal funds. Subject to various restrictions, we may also invest our assets in investment grade commercial paper and corporate debt securities and mutual funds whose assets conform to the investments that a financial institution is otherwise authorized to make directly.

Our Chief Financial Officer, in coordination with our Asset/Liability Committee, directs our investment activities. We consider various factors when making decisions, including the marketability, maturity and tax consequences of the proposed investment. We design the maturity structure of investments to accommodate various market conditions, including the current and anticipated short and long-term interest rates, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds through deposit withdrawals and loan originations and purchases.

Technology

We believe that our technology platform is comparable with other banks of our size. We recently went through a conversion of our core provider from FiServ to DCI. The new provider is more cost efficient and currently hosts banks up to $3 billion in assets. Most of our applications systems are fully integrated into the core

system, which is a benefit in comparison to other core providers. We believe our overall technology infrastructure is sufficient; however, we may need to add additional applications as we grow. We have recently purchased additional servers to facilitate growth.

Employees

As of September 30, 2018, we had 19 full-time employees. We are not a party to a collective bargaining agreement, and we consider our relations with employees to be good. We believe that we are appropriately staffed for current operations. As we execute upon our growth strategy, we intend to actively recruit seasoned bankers in our current market area and in additional attractive growth markets. We also intend to add lending and deposit operations staff as needed to support new production personnel.

Properties / Branches

We currently operate out of our corporate headquarters and full-service branch located at 11760 US Highway 1, Suite 102-W, Palm Beach Gardens, Florida 33408. Our corporate headquarters and full-service branch is leased. In May 2018, we acquired a vacant branch facility in Jupiter, Florida, to which we will relocate our main office on April 15, 2019. The new location is in a growing, high-density residential and retail area, which accommodates an ATM and drive-thru. It is proximate to the professional client base that aligns with our target demographic. It is visible from the street with prominent signage and is convenient for clients to visit. As a standalone building, it gives us the ability to establish a presence in the community. Based on anticipated growth, we are currently exploring lease alternatives within our market area to house additional back office support.

Legal Proceedings

From time to time, we are a party to various litigation matters incidental to the conduct of our business. In management's opinion, the outcome of these matters, individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operation.

On October 10, 2018, we entered into the BSA Consent Order. See "Offering Circular Summary— BSA Consent Order."

Corporate Information

We were established in August 2007. Our principal executive office is located at 11760 US Highway 1, Suite 102-W, Palm Beach Gardens, Florida 33408, and our telephone number at that address is (561) 630-5595. Our website address is www.bankflorida.com. The information contained on our website is not a part of, or incorporated by reference into, this offering circular.

SUPERVISION AND REGULATION

We are subject to extensive federal and state banking laws, regulations, and policies that are intended primarily for the protection of customers, depositors and other consumers, the Deposit Insurance Fund ("DIF"), and the banking system as a whole; not for the protection of our other creditors and stockholders. We are examined, supervised and regulated by the OFR and the FDIC (our primary federal regulator) as an FDIC-insured state-chartered bank that does not have a parent bank holding company and that is not a member of the Federal Reserve System (the "Federal Reserve"). The statutes enforced by, and regulations and policies of, these agencies affect most aspects of our business, including prescribing the permissible scope of our activities, permissible types of loans and investments, the amount of required reserves, requirements for branch offices, and various other requirements.

Our deposits are insured by the FDIC to the fullest extent permissible by law. As an insurer of deposits, the FDIC issues regulations, conducts examinations, requires the filing of reports and generally supervises the operations of all institutions to which it provides deposit insurance. In addition, because we are a state non-member bank, the FDIC is also our primary federal regulator. Accordingly, the approvals of the FDIC and the OFR are required for certain transactions in which we may engage, including any merger or consolidation involving us, a change in control over us, or the establishment or relocation of any of our branch offices. In reviewing applications seeking approval of such transactions, the FDIC and the OFR may consider, among other things, the competitive effect and public benefits of the transactions, the capital position, financial and managerial resources and future prospects of the organizations involved in the transaction, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act (see "Community Reinvestment Act" below) and the effectiveness of the organizations involved in the transaction in combating money laundering activities. The FDIC and the OFR also have the power to prohibit these and other transactions even if approval is not required, and could do so if we have otherwise failed to comply with all laws and regulations applicable to us.

Florida State Law

As a state-chartered banking institution in the State of Florida, we are empowered by statute, subject to the limitations contained in those statutes, to take and pay interest on deposits, to make loans, to invest, with certain limitations, in certain securities and to provide various other banking services on behalf of our customers. State consumer laws and regulations also affect our operations, including, but not limited to, state usury laws, laws relating to fiduciaries, and consumer credit laws. In addition to remedies available to the FDIC (which are discussed below), the OFR may take possession of our bank if certain conditions exist, such as conducting business in an unsound, unsafe or unauthorized manner such that it is threatened with imminent insolvency or is insolvent or imminently insolvent.

Safety and Soundness Regulation

As an insured depository institution, we are subject to prudential regulation and supervision and must undergo regular on-site examinations by our banking agencies. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. We file quarterly consolidated reports of condition and income ("call reports") with the FDIC and OFR. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution.

The federal banking agencies have also adopted guidelines establishing safety and soundness standards for all insured depository institutions including our bank. The safety and soundness guidelines relate to, among other things, our internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation, asset growth, and interest rate exposure. The standards assist the federal banking agencies with

early identification and resolution of problems at insured depository institutions. If we were to fail to meet these standards, the FDIC could require us to submit a compliance plan and take enforcement action if an acceptable compliance plan were not submitted. In addition, the FDIC could terminate our deposit insurance if it determines that our financial condition was unsafe or unsound or that we engaged in unsafe or unsound practices that violated an applicable rule, regulation, order or condition enacted or imposed on us by our regulators.

Payment of Dividends

The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions that limit the amount available for such distribution depending upon earnings, financial condition and cash needs of the institution, as well as general business conditions. Insured depository institutions are also prohibited from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if after such transaction the institution would be less than adequately capitalized. We may generally declare a dividend from retained net profits which accrued prior to the preceding two years, but we must, before the declaration of a dividend on our common stock, carry 20 percent of our net profits for such preceding period as is covered by the dividend to our surplus fund, until the same shall at least equal the amount of our common stock then issued and outstanding.

Under Florida law, we are prohibited from declaring a dividend at any time at which our net income from the current year combined with the retained net income from the preceding two years is a loss or which would cause our capital accounts to fall below the minimum amount required by law, regulation, order, or any written agreement with the office or a state or federal regulatory agency.

Under certain circumstances, the FDIC may determine that the payment of a dividend would be an unsafe or unsound practice as a result of our financial condition and to prohibit the payment thereof. In particular, the FDIC has stated that excessive dividends can negate strong earnings performance and result in a weakened capital position and that dividends generally can be disbursed, in reasonable amounts, only after losses are eliminated and necessary reserves and prudent capital levels are established. In addition, the capital rules (and in particular, the capital conservation buffer, which is being phased in over a three-year period commencing on January 1, 2016), require us to maintain 2.5% in excess of the adequately capitalized floors established in regulation for the Common Equity Tier 1 capital, the Tier 1 Risk-Based Capital and the Total Risk Based Capital ratios in order to pay a dividend. See “—Capital and Related Requirements.”

Capital and Related Requirements

We are subject to comprehensive capital adequacy requirements intended to protect against losses that we may incur. The FDIC’s current capital rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to two consultative documents released by the Basel Committee on Banking Supervision (“BCBS”) in December 2009, a rules text released in December 2010 and revised in June 2011, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage, and liquidity requirements. The federal banking agencies issued proposed Basel III implementation rules in June 2012. On July 9, 2013, the FDIC approved final rules that substantially amended the regulatory risk-based capital rules applicable to us, effective beginning January 1, 2015. The rules apply to all state and national banks and savings associations regardless of size and bank holding companies and savings and loan holding companies with more than $1 billion in total consolidated assets. More stringent requirements are imposed on “advanced approaches” banking organizations—those organizations with $250 billion or more in total consolidated assets, $10 billion or more in total foreign exposures, or that have opted in to the Basel II capital regime.

The FDIC's final capital rules include new risk-based capital and leverage ratios, which are being phased in from 2015 to 2019, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital-level requirements applicable to us are:

- a new Common Equity Tier 1 risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6% (increased from the former 4% requirement);
- a total risk-based capital ratio of 8% (unchanged from the former requirement); and
- a leverage ratio of 4% (also unchanged from the former requirement).

The final rules also established a "capital conservation buffer" above the new regulatory minimum capital requirements, which must consist entirely of Common Equity Tier 1 capital, to be phased in over several years. The phase-in of the capital conservation buffer began on January 1, 2016, at a level of 0.625% of risk-weighted assets for 2016 and increased to 1.250% for 2017 and 1.875% for 2018. The minimum buffer then will be 2.500% for 2019 and thereafter, resulting in the following effective minimum capital ratios beginning in 2019: (i) a Common Equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if their capital levels fall below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under the current rule, Tier 1 capital is redefined to include two components: Common Equity Tier 1 capital and additional Tier 1 capital. The new and highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, and limited amounts of minority interests in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as noncumulative perpetual preferred stock. Tier 2 capital consists of instruments that currently qualify as Tier 2 capital plus instruments that the rule has otherwise disqualified from Tier 1 capital treatment. Cumulative perpetual preferred stock, formerly includable in Tier 1 capital, is now included only in Tier 2 capital. Accumulated other comprehensive income is presumptively included in Common Equity Tier 1 capital and often would operate to reduce this category of capital. The rule provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of Accumulated other comprehensive income. We made this opt-out election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our investment securities portfolio.

The final rules also prescribed a new standardized approach for risk weightings that expanded the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0%, for U.S. government and agency securities, to 600%, for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

In December 2017, the BCBS issued additional guidance finalizing the Basel III reforms. These additional reforms have been referred to colloquially, but not officially, as "Basel IV." These additional reforms further affect calculation of risk weighted assets for both banks using standardized approaches and banks using internal models. The reforms introduce new capital floors and affect calculations of credit, market and operational risks. These reforms once implemented may affect the capital costs of our business.

Prompt Corrective Action

As an insured depository institution, we are required to comply with the capital requirements promulgated under the Federal Deposit Insurance Act (the "FDIA"). The FDIA requires each federal banking agency to take prompt corrective action ("PCA") to resolve the problems of insured depository institutions, including those that fall below one or more prescribed minimum capital ratios. The law requires each federal banking agency to

promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of capital ratios: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized.” As of September 30, 2018, our capital ratios exceeded the minimum ratios established for a “well capitalized” institution.

The following is a list of the criteria for each PCA capital category:

- *Well Capitalized*—The institution exceeds the required minimum level for each relevant capital measure. A well-capitalized institution:
  - has total risk-based capital ratio of 10% or greater; and
  - has a Tier 1 risk-based capital ratio of 8% or greater; and
  - has a common equity Tier 1 risk-based capital ratio of 6.5% or greater; and
  - has a leverage capital ratio of 5% or greater; and
  - is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.
- *Adequately Capitalized*—The institution meets the required minimum level for each relevant capital measure. The institution may not make a capital distribution if it would result in the institution becoming undercapitalized. An adequately capitalized institution:
  - has a total risk-based capital ratio of 8% or greater; and
  - has a Tier 1 risk-based capital ratio of 6% or greater; and
  - has a common equity Tier 1 risk-based capital ratio of 4.5% or greater; and
  - has a leverage capital ratio of 4% or greater.
- *Undercapitalized*—The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution:
  - has a total risk-based capital ratio of less than 8%; or
  - has a Tier 1 risk-based capital ratio of less than 6%; or
  - has a common equity Tier 1 risk-based capital ratio of less than 4.5% or greater; or
  - has a leverage capital ratio of less than 4%.
- *Significantly Undercapitalized*—The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution:
  - has a total risk-based capital ratio of less than 6%; or
  - has a Tier 1 risk-based capital ratio of less than 4%; or
  - has a common equity Tier 1 risk-based capital ratio of less than 3% or greater; or
  - has a leverage capital ratio of less than 3%.
- *Critically Undercapitalized*—The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” Moreover, if the institution becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the FDIC. The institution also would become subject to

increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless it is determined by the appropriate federal banking agency to be consistent with an accepted capital restoration plan or unless the FDIC determines that the proposed action will further the purpose of PCA. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs.

In addition to measures taken under the PCA provisions, insured banks may be subject to potential actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of cease and desist orders that can be judicially enforced, the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, the imposition of a conservator or receiver, or removal and prohibition orders against "institution-affiliated" parties, and termination of insurance of deposits. The OFR also has broad powers to enforce compliance with Florida state laws and regulations.

Community Reinvestment Act and Fair Lending Requirements

We are subject to certain fair lending requirements and reporting obligations involving home mortgages lending operations. We are also subject to certain requirements and reporting obligations under the Community Reinvestment Act ("CRA"). The CRA generally requires federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods. The CRA further requires the agencies to take into account our record of meeting community credit needs when evaluating applications for, among other things, new branches or mergers. We are also subject to analogous state CRA requirements in Florida and other states in which we may establish branch offices. In connection with their assessments of CRA performance, the FDIC and OFR assign a rating of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance." We received a "satisfactory" CRA Assessment Rating from both regulatory agencies in its most recent examinations. In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other of our activities, including in acting on expansionary proposals.

Consumer Protection Regulations

Our activities are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by us are subject to state usury laws and federal laws concerning interest rates. Our loan operations are also subject to federal laws applicable to credit transactions, such as:

- the Truth-In-Lending Act ("TILA") and Regulation Z, governing disclosures of credit and servicing terms to consumer borrowers and including substantial new requirements for mortgage lending and servicing, as mandated by the Dodd-Frank Act;
- the Home Mortgage Disclosure Act of 1975 and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the communities they serve;
- the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, color, religion, or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act and Regulation V, as well as the rules and regulations of the FDIC governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;

- the Fair Debt Collection Practices Act and Regulation F, governing the manner in which consumer debts may be collected by collection agencies; and
- the Real Estate Settlement Procedures Act and Regulation X, which governs aspects of the settlement process for residential mortgage loans.

Our deposit operations are also subject to federal laws, such as:

- the FDIA, which, among other things, limits the amount of deposit insurance available per account to $250,000 and imposes other limits on deposit-taking;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act and Regulation E, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the Truth in Savings Act and Regulation DD, which requires depository institutions to provide disclosures so that consumers can make meaningful comparisons about depository institutions and accounts.

The Consumer Financial Protection Bureau (the "CFPB") is an independent regulatory authority housed within the Federal Reserve. The CFPB has broad authority to regulate the offering and provision of consumer financial products. The CFPB has the authority to supervise and examine depository institutions with more than $10 billion in assets for compliance with federal consumer laws. We expect to have less than $10 billion in assets, however, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. As such, the CFPB may participate in examinations of us. In addition, states are permitted to adopt consumer protection laws and regulations that are stricter than the regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

The CFPB has issued a number of significant rules that impact nearly every aspect of the lifecycle of a residential mortgage loan. These rules implement Dodd-Frank Act amendments to the Equal Credit Opportunity Act, TILA and the Real Estate Settlement Procedures Act ("RESPA"). Among other things, the rules adopted by the CFPB require banks to: (i) develop and implement procedures to ensure compliance with a "reasonable ability-to-repay" test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages, including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence, and mortgage origination disclosures, which integrate existing requirements under TILA and RESPA; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; and (iv) comply with new disclosure requirements and standards for appraisals and certain financial products.

Bank regulators take into account compliance with consumer protection laws when considering approval of proposed expansionary proposals.

Anti-Money Laundering Regulation

As a financial institution, we must maintain anti-money laundering programs that include established internal policies, procedures and controls, a designated compliance officer, an ongoing employee training program, and testing of the program by an independent audit function in accordance with the Bank Secrecy Act of 1970, as amended, and the regulations issued by the Department of the Treasury in 31 CFR Chapter X, FDIC Rule 326.8 and the Florida Control of Money Laundering and Terrorist Financing in Financial Institutions Act.

Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions, foreign customers and other high risk customers. Financial institutions must also take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report transactions that meet certain thresholds as well as any suspicious transactions. Recent laws, such as the USA PATRIOT ACT, enacted in 2001 and renewed through 2019, as described below, provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act. Bank regulators routinely examine institutions for compliance with these obligations, and this area has become a particular focus of the regulators in recent years. In addition, the regulators are required to consider compliance in connection with the regulatory review of certain applications. In recent years, regulators have expressed concern over banking institutions' compliance with anti-money laundering requirements and, in some cases, have delayed approval of their expansionary proposals. The regulators and other governmental authorities have been active in imposing "cease and desist" orders and significant money penalty sanctions against institutions found to be in violation of the anti-money laundering regulations. We have entered into a BSA Consent Order with the FDIC and the OFR that governs certain aspects of our operations. See "Offering Circular Summary – BSA Consent Order" for more information.

USA PATRIOT Act

The USA PATRIOT Act became effective on October 26, 2001 and amended the Bank Secrecy Act. The USA PATRIOT Act provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanisms for the U.S. government, including:

- due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons;
- requiring standards for verifying customer identification at account opening;
- rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering;
- reports by nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; and
- filing suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

The USA PATRIOT Act requires financial institutions to undertake enhanced due diligence of private bank accounts or correspondent accounts for non-U.S. persons that they administer, maintain, or manage. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the USA PATRIOT Act, the Financial Crimes Enforcement Network ("FinCEN") can send us lists of the names of persons suspected of involvement in terrorist activities or money laundering. We may be requested to search our records for any relationships or transactions with persons on those lists. If we find any relationships or transactions, we must report those relationships or transactions to FinCEN.

The Office of Foreign Assets Control

The Office of Foreign Assets Control ("OFAC"), which is an office in the U.S. Department of the Treasury, is responsible for helping to ensure that U.S. entities do not engage in transactions with "enemies" of the

United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts; owned or controlled by, or acting on behalf of target countries, and narcotics traffickers. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze or block the transactions on the account. We have appointed a compliance officer to oversee the inspection of our accounts and the filing of any notifications. We check high-risk OFAC areas such as new accounts, wire transfers and customer files. These checks are performed using software that is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Financial Privacy and Cybersecurity

Under privacy protection provisions of the Gramm-Leach-Bliley Act of 1999 and related regulations, we are limited in our ability to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Federal banking agencies, including the FDIC, have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of the board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services.

In addition to federal laws and regulations, we are subject to state laws governing privacy and cybersecurity. The Florida Information Protection Act of 2014 requires notification of the Florida Department of Legal Affairs of any breach involving personal information that affects more than 500 people as well as requiring notification of affected individuals of a breach. The Act also requires us to take reasonable measures to protect and secure data in electronic form containing personal information and take all reasonable measures to dispose, or arrange for the disposal, of customer records containing personal information within our custody or control when the records are no longer to be retained.

Transactions with Related Parties

Transactions between banks and their affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank.

Generally, Sections 23A and 23B of the Federal Reserve Act and Regulation W (i) limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution's capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to non-affiliates. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

The Federal Reserve Act and its implementing Regulation O also provide limitations on our ability to extend credit to executive officers, directors and 10% stockholders ("insiders"). The law limits both the individual and aggregate amount of loans that we may make to insiders based, in part, on our capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and must not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further limited to specific categories.

Change in Control

The approval of the OFR and FDIC is required before any person or group of persons deemed to be acting in concert may acquire "control" of a banking institution, which includes us. "Control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a banking institution through ownership of stock or otherwise and is presumed to exist if, among other things, any company owns, controls, or holds the power to vote 10% or more of the voting stock of a banking institution. As a result, any person or company that seeks to acquire 10% or more of our outstanding common stock must obtain prior regulatory approval.

In addition to the Florida state and FDIC regulatory requirements, the federal Bank Holding Company Act prohibits a company from, directly or indirectly, acquiring 25% or more (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise directing the management or policies of our company without prior application to and the approval of the Federal Reserve. Moreover, under the Change in Bank Control Act, any person or group of persons acting in concert who intends to acquire 10% or more of any class of our voting stock or otherwise obtain control over us would be required to provide prior notice to and obtain the non-objection of the FDIC.

Incentive Compensation

Guidelines adopted by the federal banking agencies pursuant to the FDIA prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder.

In June 2010, the federal banking agencies jointly adopted the Guidance on Sound Incentive Compensation Policies ("GSICP"). The GSICP intended to ensure that banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This guidance, which covers all employees that have the ability to expose the organization to material amounts of risk, either individually or as part of a group, is based upon a set of key principles relating to a banking organization's incentive compensation arrangements. Specifically, incentive compensation arrangements should (i) provide employee incentives that appropriately balance risk in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in our compensation practices could lead to supervisory or enforcement actions by the FDIC.

The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as us, having at least $1 billion in total assets that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The federal banking agencies proposed such regulations in April 2011 and issued a second proposed rule in April 2016. The second proposed rule would apply to all banks, among other institutions, with at least $1 billion in average total consolidated assets. Final regulations have not been adopted as of September 30, 2018. If adopted, these or other similar regulations would impose limitations on the manner in which we may structure compensation for our executives and other employees. The scope and content of the federal banking agencies' policies on incentive compensation are continuing to develop and are likely to continue evolving.

Deposit Premiums and Assessments

As an FDIC-insured bank, we must pay deposit insurance assessments to the FDIC based on our average total assets minus our average tangible equity. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the U.S. Government.

As an institution with less than $10 billion in assets, our assessment rates are based on the level of risk we pose to the DIF. Pursuant to changes adopted by the FDIC that were effective July 1, 2016, the initial base rate for deposit insurance is between three and 30 basis points. Total base assessment after possible adjustments now ranges between 1.5 and 40 basis points. For established smaller institutions, like us, the total base assessment rate is calculated by using supervisory ratings as well as (i) an initial base assessment rate, (ii) an unsecured debt adjustment (which can be positive or negative), and (iii) a brokered deposit adjustment. Because we entered into the BSA Consent Order, we anticipate that our FDIC assessments will increase for the foreseeable future.

Under the Dodd-Frank Act, the limit on FDIC deposit insurance was increased to $250,000. The coverage limit is per depositor, per insured depository institution for each account ownership category. The Dodd-Frank Act also set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (“FICO”), an agency of the federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a notice and hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Commercial Real Estate Guidance

In December 2015, the federal banking regulators released a statement entitled “Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending” (the “CRE Guidance”). In the CRE Guidance, the federal banking regulators (i) expressed concerns with institutions that ease commercial real estate underwriting standards, (ii) directed financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and (iii) indicated that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward. The federal banking regulators previously issued guidance in December 2006, entitled “Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices,” which stated that an institution that is potentially exposed to significant commercial real estate concentration risk should employ enhanced risk management practices. Specifically, the guidance states that such institutions should ensure (i) total commercial real estate loans represent 300% or more of the institution’s total capital and (ii) the outstanding balance of such institution’s commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

The Volcker Rule

The Dodd-Frank Act prohibits (subject to certain exceptions) us and our affiliates from engaging in short-term proprietary trading in securities and derivatives and from investing in and sponsoring certain unregistered investment companies defined in the rule as “covered funds” (including not only such things as hedge funds, commodity pools and private equity funds, but also a range of asset securitization structures that do not meet exemptive criteria in the final rules). The statutory provision is commonly called the “Volcker Rule.”

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary policies of the United States and its agencies. The Federal Open Market Committee's monetary policies have had, and are likely to continue to have, an important effect on the operating results of banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects on the levels of bank loans, investments and deposits through its open market operations in U.S. government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. We cannot predict the nature or effect of future changes in such monetary policies.

Future Legislation and Regulation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied or interpreted. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation has in the past and may in the future affect the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital or modify our business strategy, or limit our ability to pursue business opportunities in an efficient manner. Our business, financial condition, results of operations or prospects may be adversely affected, perhaps materially, as a result.

BSA Consent Order

On October 10, 2018, the Bank entered into a Stipulation to the Issuance of a Consent Order with the FDIC and the OFR, consenting to the issuance of the BSA Consent Order relating to identified deficiencies in the Bank's centralized BSA and AML compliance program, which is designed to comply with the requirements of the BSA, the USA Patriot Act of 2001 and related AML regulations (collectively, the "BSA/AML Requirements"). Per the BSA Consent Order, the Bank must, among other things: continue to increase the participation of the board of directors in the supervision of the Bank through meetings held no less frequently than monthly and to establish a committee of the board of directors to oversee the Bank's compliance with the BSA Consent Order; continue to have and retain qualified management capable of complying with the directives of the BSA Consent Order and the operations of the Bank in a safe and sound manner and seek regulatory approval for the appointment of any new director or executive officer; revise and adopt a BSA compliance program to address the risk profile of the Bank and ensure and maintain compliance with all AML laws and regulations; review and revise written policies and procedures for a risk assessment of the Bank's operations to address risk factors that affect the overall BSA/AML risk profile of the Bank; revise its system of internal controls designed to assure full compliance with BSA and to include policies and procedures addressing suspicious activity monitoring and reporting, customer due diligence, and enhanced due diligence; ensure that all appropriate personnel are aware of and can comply with the requirements of the BSA applicable to their specific responsibilities, and implement effective training programs for the board of directors, management and staff; develop a written analysis and assessment of the Bank's BSA staffing needs to assure the Bank employs BSA staff with the requisite ability, experience and other qualifications necessary to ensure BSA compliance, and designate a qualified individual to serve as the Bank's BSA officer; engage an independent qualified firm to conduct a review of all high-risk accounts and high-risk transaction activity since August 2017 to determine whether suspicious activity was properly identified and reported, and submit to the bank regulatory agencies a written plan to conduct such review and to complete the review within 120 days of regulatory non-objection to the plan; develop and adopt a plan to conduct testing for compliance with the BSA rules, and BSA compliance program and revise its internal audit program to establish procedures to review the integrity of the Bank's compliance with the BSA compliance program and the BSA rules; ensure that all required reports of the BSA program required by law or regulation are completed accurately

and properly filed within the required timeframes; eliminate and/or correct all violations of laws and regulations cited by the regulatory agencies; and submit quarterly progress reports to the bank regulatory agencies. Certain activities, including expansionary activities, that otherwise require regulatory approval will likely be impeded while the BSA Consent Order remains outstanding. Compliance and resolution of the BSA Consent Order will ultimately be determined by the FDIC and OFR.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information concerning our executive officers and directors upon completion of this offering.

Name	Age	Position
Executive Officers:		
John K. Stephens, Jr.	55	Chief Executive Officer and Director
Tracy L. Keegan	53	President, Chief Financial Officer and Director
Phillip S. Buddenbohm	48	Executive Vice President and Chief Lending Officer
Non-Employee Directors:		
David S. Worley, III	63	Chairman and Director
Bruce I. Sacerdote	50	Director
Earl D. Stewart, Jr.	78	Director
Michael S. Cooper(1)	47	Proposed Director
David L. Dennis(1)	61	Proposed Director
Jonathan D. Diamond(2)	45	Director
Michael J. Pascutti(2)	50	Director

(1) To be added to our board of directors upon completion of this offering.
(2) To resign from our board of directors upon completion of this offering.

The business experience and background of each of our executive officers and directors is provided below. Other than as described below, no current director has any family relationship with any other director or any of our executive officers. Except for the foregoing, there are no arrangements or understandings between any executive officer or any director, on the one hand, and any other person, on the other hand, pursuant to which any director or executive officer was selected to be a director or executive officer, as the case may be.

Executive Officers

John K. Stephens, Jr. is the Chief Executive Officer and a Director of BankFlorida, having joined in June 2018. Prior to joining the Bank, Mr. Stephens was President and CEO, and a Director, of Atlantic Coast Financial Corporation and Atlantic Coast Bank ("Atlantic Coast"). After joining Atlantic Coast in October 2013, Stephens helped recapitalize the bank through a successful $48 million capital raise, restructured the balance sheet, and created growth and earnings momentum that ultimately allowed the bank to be sold at almost three times the stock price of the initial capital raise. Prior to joining Atlantic Coast, from May 2011 until September 2013, Mr. Stephens served as President of Orlando, Florida-based Tower Bridge Capital, Inc., a privately held mezzanine debt and strategic advisory firm focused on emerging growth companies. From 2006 to 2011, he served as Chief Lending Officer for the Central and North Florida operations of Fifth Third Bank, N.A., overseeing a loan portfolio of almost $2 billion. During this time, he was responsible for strategic leadership for all wholesale banking activities in that market area. Mr. Stephens began his career in 1986 with Wachovia Bank, N.A., now Wells Fargo & Company, where he started as a regional banking officer. He later became a relationship manager responsible for originating and managing senior debt and ancillary service relationships with corporate clients, and was ultimately selected to start and lead a leveraged finance group.

Tracy L. Keegan is President and Chief Financial Officer, and a Director, of BankFlorida. Prior to joining the Bank in June 2018, Ms. Keegan served as Executive Vice President, Chief Financial Officer and Corporate Secretary for Atlantic Coast, having joined the Bank in March 2015. In her role, Ms. Keegan was responsible for Accounting, Finance, Treasury, Investor Relations and various operational units within the Bank, including Information Technology. Prior to joining Atlantic Coast, from June 2014 to February 2015, Ms. Keegan worked

for the Seminole Tribe of Florida as a banking expert and consultant. From April 2012 to May 2014, she served as Executive Vice President and as both Chief Financial Officer and Chief Operating Officer for First Southern Bancorp, Inc., Boca Raton, Florida. From June 2011 to March 2012, Ms. Keegan served as Executive Vice President and Chief Financial Officer for Florida Community Bank. From June 2010 to May 2011, Ms. Keegan served as Director of Investor Relations for EverBank Financial Corp (EverBank), during the transition and integration of the subsidiary banks of Bank of Florida Corporation (Bank of Florida), which were acquired by EverBank. Ms. Keegan had served as Executive Vice President and Chief Financial Officer of Bank of Florida since 2006. Ms. Keegan has been a member of the Florida State Board of Accountancy since July 2014 and currently serves as its Vice Chair.

Phillip S. Buddenbohm joined BankFlorida in June 2018 as Executive Vice President and Chief Lending Officer. Prior to joining the Bank, Mr. Buddenbohm served as Executive Vice President and Chief Credit Officer of Atlantic Coast Financial Corporation from 2013 and of Atlantic Coast Bank from 2007. In addition to chairing the bank's loan committee, he also served as the executive in charge of the company's mortgage banking division, and previously served as Senior Vice President of Credit Administration from 2005 until 2007. Formerly a Vice President in the Consumer Services Division of National Commerce Financial Corporation in Memphis, Tennessee, Mr. Buddenbohm has more than 20 years of experience in lending, credit administration and branch services.

Non-Employee Directors

David S. Worley, III, has served as one of our directors since December 2015. Mr. Worley is the founder and fund manager for the Priderock Multifamily Debt Opportunity Fund, which he founded in May 2017. Prior to launching the fund, Mr. Worley served as the Chief Risk Officer for the Multifamily Division of Fannie Mae from November 2005 until January 2014. Prior to joining Fannie Mae, Mr. Worley co-founded Real Estate Capital Markets for First Union/Wachovia and served as the Chief Risk Officer for that platform.

Bruce I. Sacerdote has served as one of our directors since November 2014. Mr. Sacerdote has been the Richard S. Braddock 1963 Professor of Economics at Dartmouth College since July 2005 and is a member of the National Bureau of Economic Research. Mr. Sacerdote teaches courses in Advanced Topics in Finance, Money and Banking and his academic research focuses on the economics of education.

Earl D. Stewart, Jr. has served as one of our directors since August 2007. Mr. Stewart has served as the Chief Executive Officer and owner of Earl Stewart Toyota in North Palm Beach, Florida since 1974. Over the course of his career, he has built his business into one of the largest Toyota dealerships in the state. He is a highly visible member of the local business community, as well as a consumer advocate and philanthropist.

Michael S. Cooper has been elected to serve as a director effective upon the consummation of this offering. Since October 2016, Mr. Cooper has served as the Chief Financial Officer of PlanSource, a private equity owned technology company that provides software and services for benefits administration and human resource management. As Chief Financial Officer, he is responsible for leading financial strategy and overseeing all finance, treasury, bank relationships and investments. Mr. Cooper has more than 20 years of extensive experience in finance, mergers and acquisitions, technology development, healthcare, ecommerce, consumer engagement solutions and human capital & workforce management systems. He has served as President and Chief Financial Officer of both publicly traded and privately held companies. Prior to joining PlanSource, Mr. Cooper served as a senior executive at Filtration Group from November 2014 until October 2016 and Chief Financial Officer at several transformative, high-growth companies such as Con-Air Industries from September 2009 to November 2014, Empower Software Solutions, Connextions, and PSS World-Medical. Mr. Cooper began his financial career at Ernst & Young.

David L. Dennis has been elected to serve as a director effective upon the consummation of this offering. Mr. Dennis is a Certified Public Accountant and spent 36 years of his career at KPMG LLP, where he served as a

Partner from 1993 until his retirement in December 2015. During his time at KPMG, Mr. Dennis served in its advisory practice and served as the Advisory Sector Leader for its State and Local Government Advisory Practice. In addition, from 1979 to 2002, Mr. Dennis was a member of the Audit Practice at KPMG and audited publicly traded companies, privately owned companies and public sector clients (governments and not for profits). He is a Past Member of Council for the American Institute of CPAs and a current member of the National Association of State Boards of Accountancy. Mr. Dennis previously served as acting Chief Financial Officer of the U.S. House of Representatives and as President for the Florida Institute of CPAs. He was appointed by Florida Governor Rick Scott to the Florida Board of Accountancy, where he currently serves as chair. Mr. Dennis currently serves on the board of directors and chairs the Audit Committee of Gordon Pointe Acquisition Corporation, a special purpose acquisition company.

Michael J. Pascutti has served as one of our directors since February 2018. Mr. Pascutti has served as a Visiting Lecturer in Economics at Yale University since August 2015. He is also the Co-Founder of Eagle River Credit & Event Fund LP and Eagle River Asset Management and has served as its Partner and Portfolio Manager since July 2010. Previously, he was employed at Pimco and served as a Partner and Portfolio Manager at Sandelman Partners, LP where he oversaw firm's relative-value credit portfolio. Prior to that, he was a Portfolio Manager at Citadel LLC, where he served as Managing Director and Head of US Convertibles. He began his career as an Associate at Credit Suisse.

Jonathan D. Diamond has served as one of our directors since September 2016. Mr. Diamond has served as the Managing Partner at K.A.D. Companies, a single-family office managing multi asset class investments, since September 2014. He previously served as a Vice President of both JP Morgan (from January 2010 to September 2014) and Goldman Sachs (from August 2003 to January 2010) and served in the U.S. Marine Corps, where he attained the rank of Captain.

Director Independence

Under the rules of The Nasdaq Stock Market, independent directors must comprise a majority of our board of directors within a specified period of time of this offering. The rules of The Nasdaq Stock Market also impose several other requirements with respect to the independence of our directors. Our board of directors has evaluated the independence of its members and our director nominees based upon the rules of The Nasdaq Stock Market. Applying these standards, our board of directors has affirmatively determined that, with the exception of Mr. Stephens (who serves as Chief Executive Officer of the Bank) and Ms. Keegan (who serves as President and Chief Financial Officer of the Bank), each of our directors is an independent director, as defined under the applicable rules. The board of directors also determined that Mr. Worley is independent even though he was designated as an executive officer for purposes of Regulation O under the banking laws in April 2018 (but with the addition of the new management is no longer designated as such) because he was not employed by the Bank and did not receive any separate compensation for such designation.

Leadership Structure

Our board of directors meets at least nine times a year and our executive committee meets during the months when the board of directors does not meet. Our board of directors does not have a policy regarding the separation of the roles of Chief Executive Officer and director, as the board believes that it is in the best interests of our bank to make that determination from time to time based on the position and direction of our bank and the membership of the board. The board has determined that having our Chief Executive Officer serve as a director is in the best interests of our stockholders at this time. We believe this structure makes best use of the Chief Executive Officer's extensive knowledge of our Bank and the banking industry. The board views this arrangement as also providing an efficient nexus between our organization and the board, enabling the board to obtain information pertaining to operational matters expeditiously.

Code of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors. The full text of our code of business conduct and ethics, and any amendments thereto, is available on our corporate website.

Committees of the Board of Directors

Our board of directors has established standing committees in connection with the discharge of its responsibilities. These committees include, among others, the audit committee, compensation committee, corporate governance and nominating committee, executive and strategic committee and risk committee. Our board of directors also may establish such other committees as it deems appropriate, in accordance with applicable law and regulations and our corporate governance documents. The composition and responsibilities of each committee are described below. Members will serve on these committees so long as they are a member of the board of directors until their resignation or until otherwise determined by our board of directors.

Audit Committee

Following the completion of this offering, our audit committee will consist of David D. Dennis, Michael S. Cooper and Bruce I. Sacerdote, with Mr. Dennis serving as chair of the audit committee. Our audit committee has responsibility for, among other things:

- selecting and hiring our independent registered public accounting firm, and approving the audit and non-audit services to be performed by our independent registered public accounting firm;
- evaluating the qualifications, performance and independence of our independent registered public accounting firm;
- monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing the adequacy and effectiveness of our internal control policies and procedures;
- discussing the scope and results of the audit with the independent registered public accounting firm and reviewing with management and the independent registered public accounting firm our interim and year-end operating results; and
- preparing the audit committee report required by the Exchange Act rules to be included in our annual proxy statement.

Applicable Nasdaq Stock Market rules require our audit committee to be composed entirely of independent directors upon the effective date of our registration statement. Our board of directors has affirmatively determined that each of the members of our audit committee will meet the definition of “independent directors” under the rules of The Nasdaq Stock Market. Our board of directors also has determined that Bruce Sacerdote qualifies as an “audit committee financial expert” as defined by the Exchange Act rules.

Our board of directors has adopted a written charter for our audit committee, which is available on our corporate website.

Compensation Committee

Following the completion of this offering, our compensation committee will consist of Michael S. Cooper, David D. Dennis and Earl D. Stewart, Jr., with Mr. Cooper serving as chair of the committee. The compensation committee is responsible for, among other things:

- reviewing and approving compensation of our executive officers including annual base salary, annual incentive bonuses, specific goals, equity compensation, employment agreements, severance and change in control arrangements, and any other benefits, compensation or arrangements;

- reviewing and recommending compensation goals, bonus and stock compensation criteria for our employees;
- evaluating the compensation of our directors;
- reviewing and discussing annually with management our executive compensation disclosure required by Exchange Act rules; and
- administrating, reviewing and making recommendations with respect to our equity compensation plans.

Our board of directors has evaluated the independence of the members of our compensation committee and has determined that each of the members of our compensation committee will be an "independent director" under The Nasdaq Stock Market standards. The members of the compensation committee will also satisfy the independence requirements and additional independence criteria under Rule 10C-1 under the Exchange Act, qualify as "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act and "outside directors" within the meaning of Section 162(m) of the Code.

Our board of directors has adopted a written charter for our compensation committee, which is available on our corporate website.

Corporate Governance and Nominating Committee

Following the completion of this offering, our corporate governance and nominating committee will consist of Bruce I. Sacerdote, David D. Dennis and Earl D. Stewart, Jr., with Mr. Sacerdote serving as chair of the committee. The corporate governance and nominating committee is responsible for, among other things:

- assisting our board of directors in identifying prospective director nominees and recommending nominees for each annual meeting of stockholders to the board of directors;
- reviewing periodically the governance principles adopted by the board of directors and developing and recommending governance principles applicable to our board of directors;
- overseeing the evaluation of our board of directors; and
- recommending members for each board committee of our board of directors.

Our board of directors has evaluated the independence of the members of our corporate governance and nominating committee and has determined that each of the members of our corporate governance and nominating committee will be "independent" under The Nasdaq Stock Market standards.

Our board of directors has adopted a written charter for our corporate governance and nominating committee, which is available on our corporate website.

Executive and Strategic Committee

Our executive and strategic committee consists of John K. Stephens, Jr., Tracy L. Keegan, Bruce I Sacerdote and David S. Worley, III, with Mr. Stephens serving as chair of the committee. The executive and strategic committee is responsible for, among other things, meetings on behalf of the board when the board is not in session and to assist the board with strategic planning.

Risk Committee

Following the completion of this offering, our risk committee will consist of David S. Worley, III, John K. Stephens, Jr., Tracy L Keegan, Earl D. Stewart, Jr., Bruce I. Sacerdote, David D. Dennis and Michael S. Cooper, with Mr. Worley serving as chair of the committee. The risk committee is responsible for, among other things:

- overseeing our risk management framework, including policies and practices relating to the identification, measurement, monitoring and controlling our principal business risks;

- reviewing all loan approvals above a certain dollar threshold;
- ensuring that our risk management framework is commensurate with its structure, risk profile, complexity, activities and size; and
- providing an open forum for communications between management, third parties and our board of directors to discuss risk and risk management.

Compensation Committee Interlocks and Insider Participation

For the year ended December 31, 2017, our compensation committee consisted of David S. Worley, III, Earl D. Stewart, Jr., and Bruce Sacerdote. None of them has at any time been an officer or employee of ours, or has had any relationship with us of the type that is required to be disclosed under Item 404 of Regulation S-K. During 2017, none of our executive officers served as a member of the board of directors, compensation committee or other board committee performing equivalent functions of another entity that had one or more executive officers serving as a member of our board of directors or compensation committee.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides information regarding the compensation of our current and former named executive officers for the year ended December 31, 2017.

Name and principal position	Year	Salary ($)	Bonus ($)	All other compensation ($)	Total ($)
John K. Stephens, Jr.[1] *Chief Executive Officer*	2017	—	—	—	—
Tracy L. Keegan[2] *President and Chief Financial Officer*	2017	—	—	—	—
Phillip S. Buddenbohm[3] *Executive Vice President and Chief Lending Officer*	2017	—	—	—	—
Ronald D. Gaither[4] *President and Chief Executive Officer*	2017	$166,400	$10,000	$13,200[5]	$189,600
David Edgar[6] *Chief Financial Officer*	2017	$119,532	$10,000	$ 721[7]	$130,253
Jessica L. Dodson[8] *Controller*	2017	$ 37,492	—	—	$ 37,492

(1) Mr. Stephens has served as our Chief Executive Officer since August 1, 2018.
(2) Ms. Keegan has served as our President and Chief Financial Officer since August 1, 2018.
(3) Mr. Buddenbohm has served as our Executive Vice President and Chief Lending Officer since August 1, 2018.
(4) Mr. Gaither resigned from his positions effective August 1, 2018.
(5) This amount includes (i) a car allowance of $6,000, (ii) cellular telephone expenses of $1,200 and (iii) club membership dues of $6,000.
(6) Mr. Edgar's employment was terminated effective October 13, 2017.
(7) This amount represents cellular telephone expenses.
(8) Ms. Dodson served as Controller from August 2017 to January 2018 and as Chief Financial Officer from January 2018 to April 2018.

Employment Agreements

We have entered into employment agreements with John K. Stephens, Jr. (Chief Executive Officer), Tracy L. Keegan (President and Chief Financial Officer), and Phillip S. Buddenbohm (Executive Vice President and Chief Lending Officer). The agreements are for a term of one year, which are automatically extended for additional terms of one year each unless either party gives a notice of termination at least 180 days prior to the end of the then term. Under the agreements, Mr. Stephens is entitled to a base annual salary of $24,000 (increased to $300,000 upon the closing of this stock offering), Ms. Keegan is entitled to a base annual salary of $138,000 (increased to $240,000 on the closing of this stock offering), and Mr. Buddenbohm is entitled to a base annual salary of $60,000 (increased to $180,000 upon the closing of this stock offering). In addition, each of the executives is entitled to receive upon the closing of this stock offering a lump sum payment equal to the base salary they would have received had this stock offering closed upon the commencement of their employment agreement, less the actual annual base salary paid to them from the commencement of the employment agreement to the closing of the offering). Each of the executives is entitled to participate in a supplemental executive retirement plan upon such terms and conditions as may be mutually agreed upon by the Bank and the executive on or before 30 days following the closing of this stock offering. Each of the executives is eligible, on the same basis as other employees of the Bank, to participate in all employee benefit programs offered by the Bank and for reimbursement of reasonable expenses incurred on behalf of the Bank. Upon the closing of this

stock offering for gross proceeds of at least $40 million, the executives will receive deferred sign-on cash bonuses of $100,000 for Mr. Stephens, $80,000 for Ms. Keegan, and $30,000 for Mr. Buddenbohm.

Following the closing of this stock offering, each of the executives will be eligible to earn individual annual bonuses (prorated for a partial calendar year) based upon achievement of targeted criteria mutually agreed upon by the Bank and the executive, with such bonuses to provide, at target, for (i) a cash payment equal to 60% of the executive's then base annual salary, and (ii) a stock bonus equal to 40% of the executive's then base annual salary. The stock bonus will be in such form as is agreed upon by the Bank and the executive and will be made pursuant to a stock incentive plan to be adopted by any bank holding company formed by the Bank following the closing of this stock offering.

If the executive's employment is terminated as a result of death, disability, by the Bank for "cause" (as defined in the executive's employment agreement) or as a result of the resignation by the executive without "good reason" (as defined in the executive's employment agreement), the executive is entitled only to accrued base salary and reimbursement of expenses incurred through the date of termination. If the employment of the executive is terminated by the Bank without cause or by the executive for good reason, the executive is entitled to a continued payment of his or her base annual salary for a period of one year and the provision of life insurance benefits and continued coverage and reimbursement for continued COBRA coverage during such one year period. Upon a change in control during the term, Mr. Stephens and Ms. Keegan are entitled to a payment equal to 2.99 times the sum of their base annual salary plus the annual bonus received during the year prior to such termination (and Mr. Buddenbohm is entitled to a payment equal to two (2.00) times such amounts), plus the executive is entitled to reimbursement for excise taxes incurred as a result of such change in control payment. Each of the executives is bound by non-competition and non-solicitation of customers and employees covenants during the term of employment and for a period of 12 months following termination, except where terminated in connection with a change in control.

Stock Option Plans

Our directors and stockholders have approved a stock option plan for our officers and employees, and a stock option plan for our directors (collectively, the "Plans"). The Plans also have been approved by the OFR.

Employee Plan

The purpose of the employee plan is to advance our interests and those of our stockholders by affording our officers and employees the opportunity to acquire a proprietary interest in the Bank through the grant of stock options under the employee plan. The employee plan also reinforces our efforts to retain and attract highly competent individuals upon whose judgment, leadership, and efforts we in large measure depend.

Under the employee plan, 63,819 shares of common stock are reserved for issuance, subject to anti-dilution adjustments for stock dividends, stock splits, and similar recapitalizations. The employee plan is administered by our Executive Committee or such other committee as our board may designate. The Executive Committee has the authority to determine the officers and employees eligible to receive options, the number of options to be granted to each, and the terms and provisions of each option granted. The Executive Committee also has the authority to make all determinations and to take all other actions deemed necessary or advisable for the proper administration of the employee plan.

Director Plan

The purpose of the director plan is to afford non-employee members of our board an opportunity to increase their proprietary interest in the Bank through the grant of stock options. Under the director plan, 95,727 shares of common stock are reserved for issuance, subject to anti-dilution adjustments for stock dividends, stock splits, and similar recapitalizations. The director plan is administered by our board or such committee as the board may designate.

Terms of the Plans

Both Plans provide that the exercise price for options granted under the Plans must be the greater of the par value or the fair market value of each share of the common stock on the date of grant, subject to anti-dilution adjustments. Unless otherwise determined by the board or Executive Committee, options under the Plans vest one third per year over a three-year period, commencing one year following the date of grant. If an option holder ceases to be employed or a director (as applicable) because of retirement after age 65, or due to disability or death, then the vested portion of the option as of that termination date continues to be exercisable for 90 days after the date of termination. If an option holder's employment or directorship (as applicable) is terminated for any reason other than cause and other than retirement after age 65 or due to death or disability, then the unvested portion of the option is forfeited. Options automatically expire ten years following the date of grant, subject to earlier termination as discussed above.

Upon any merger, combination, sale of substantially all of the assets, or change of control (as defined in the Plans) of the Bank, all outstanding stock options will become immediately exercisable, regardless of how many years have passed since the date of grant (excluding any transaction which results in our formation of a bank holding company). Our board may at any time amend or terminate the Plans; however, without the approval of our stockholders, the board may not amend the Plans to increase the aggregate number of shares for which options may be granted (except as may be necessary to adjust for certain anti-dilution events) or alter the class of persons eligible to receive options under the Plans. Further, no amendment or termination of the Plans may, without the consent of the option holder, adversely affect the rights of any option holder with respect to an option or the unexercised portion thereof.

Amendment to Plans

Our directors have approved an amendment to the employee plan which provides that the number of options available for issuance under the plan and following the closing of the sale of shares in this offering will equal 11% of the then outstanding shares of the Bank's common stock. Directors also approved an amendment to the director plan which provides that the number of options available for issuance under that plan following the closing of the sale of shares in this offering will equal 1% of the then outstanding shares of the Bank's common stock. The amendments have been approved by the OFR. Management anticipates that as to the options available under the employee plan (i.e., 11% of the outstanding shares after closing of the offering), 7% will be allocated to management, 0.34% will be allocated to existing employees, and the remaining 3.65% will be reserved for future issuance to employees. Management anticipates that as to the options available under the director plan (i.e., 1% of the outstanding shares after closing of the offering), 0.72% will be allocated to our non-employee directors, and the remaining 0.10% will be reserved for future issuance to directors.

The following table summarizes the number of shares underlying stock options issued pursuant to the Plans and to be issued in connection with this offering pursuant to the Plans:

	Options Issued or Reserved			
	Employee Plan	Director Plan	Total	% of Shares Outstanding(1)
John K. Stephens, Jr.	166,866	—	166,866	3.25%
Tracy L. Keegan	128,359	—	128,359	2.50%
Phillip S. Buddenbohm	64,179	—	64,179	1.25%
Other Employees	17,457	—	17,457	0.34%
Total Employee Grants at the Offering	376,861	—	376,861	7.34%
Grants to Non-Employee Directors as a Group	—	36,800	36,800	0.72%
Total Grants at the Offering(2)	376,861	36,800	413,661	8.06%
Previously Issued Under Prior Plans	460	9,660	10,120	0.20%
Reserved For Future Issuance Under the Plans	187,457	4,883	192,341	3.75%
Total Plan Size	564,778	51,343	616,122	12.00%

(1) Calculated based on the number of shares to be outstanding immediately following this offering.
(2) Options granted in connection with this offering will vest one-third per year commencing one year after the date of grant.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below summarizes the securities authorized for issuance under our equity compensation plans upon the closing of this offering. We based the values included in the table below on the actual number of awards issued to date by the Bank to its officers and employees and the number of the Bank's securities to be issued upon the closing of this offering.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	423,781	$10.02	192,341
Equity compensation plans not approved by security holders	—	—	—
Total	423,781	$10.02	192,341

Outstanding Equity Awards at 2017 Fiscal Year-End

There were no equity awards outstanding as of December 31, 2017 for our named executive officers.

Compensation of Directors for Fiscal Year 2017

During 2017, we paid each of our non-employee directors $500 for each meeting attended. No additional compensation was paid by us to directors who are our employees. The following table sets forth the compensation paid to each non-employee director who served on our board of directors in 2017:

Name	Fees Earned or Paid in Cash ($)	Total ($)
Jonathan D. Diamond	$6,000	$6,000
David S. Worley, III	$6,000	$6,000
Earl D. Stewart, Jr.	$5,000	$5,000
Bruce I. Sacerdote	$6,000	$6,000
Jackie Reeves[1]	$6,000	$6,000

(1) Ms. Reeves resigned from our board of directors in December 2017.

During 2018, each of our non-employee directors is entitled to $500 for each meeting attended. No additional compensation will be paid by us to directors who are our employees for their service as directors.

PRINCIPAL STOCKHOLDERS

The following table sets forth information about the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of our common stock as of September 30, 2018 and after the completion of the offering (assuming the underwriters do not exercise the option to purchase additional shares of our common stock) for:

- each of our named executive officer;
- each of our directors who will continue serving following the closing of this offering;
- all of our executive officers and directors as a group; and
- each person known to us to be the beneficial owner of more than 5% of our common stock.

Unless otherwise noted in the footnotes below, the address of each beneficial owner listed in the table is c/o BankFlorida, 11760 US Highway 1, Suite 102-W, Palm Beach Gardens, Florida 33408. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of our common stock that they beneficially own, subject to applicable community property laws. All information related to the stockholders owning 5% or more of our common stock is based solely upon information furnished to us by such stockholders.

We have based our calculation of the percentage of beneficial ownership on 934,349 shares of common stock outstanding as of September 30, 2018, as adjusted for the Transactions, including the Stock Split, and 5,134,349 shares of common stock outstanding after the completion of this offering and the Stock Split. For each individual, entity or group, this percentage is determined by assuming the named person, entity or group exercises all rights to acquire stock which he, she or it has the right to acquire within 60 days, but that no other person, entity or group exercises any such rights.

	Shares of Common Stock Beneficially Owned as of September 30, 2018		Shares of Common Stock Beneficially Owned After the Offering	
Name of Beneficial Owner	Number	Percentage	Number	Percentage
Named Executive Officers and Directors				
John K. Stephens, Jr.[1]	—	*	30,000	*
Tracy L. Keegan[2]	—	*	15,000	*
Phillip S. Buddenbohm[3]	—	*	15,000	*
Michael S. Cooper[4]	—	*	1,000	*
David L. Dennis[5]	—	*	10,000	*
Bruce I. Sacerdote	111,718	12.0%	111,718	2.2%
Earl D. Stewart, Jr.[6]	78,445	8.3%	78,445	1.5%
David S. Worley, III	56,518	6.0%	56,518	1.1%
All named executive officers and directors as a group (8 persons)	246,681	26.1%	317,681	6.2%
Greater than 5% Stockholders				
HW Partners LLC[7]	92,000	9.8%	92,000	1.8%
Lanier Family Trust[8]	58,392	6.2%	58,392	1.1%
Waller Everitt[9]	93,380	10.0%	93,380	1.8%

* Represents less than 1% of total outstanding shares.

(1) Includes 30,000 shares of common stock purchased in this offering.

(2) Includes 15,000 shares of common stock purchased in this offering.

(3) Includes 15,000 shares of common stock purchased in this offering.

(4) Includes 1,000 shares of common stock purchased in this offering.

(5) Includes 10,000 shares of common stock purchased in this offering.

(6) Represents 64,185 shares of common stock and 9,660 options held by Earl D. Stewart, Jr. and 4,600 shares of common stock held by Jason D. Stewart.

(7) The address of HW Partners LLC is 144 Vintage Isle Lane, Palm Beach Gardens, Florida 33418.

(8) Represents 53,792 shares of common stock held by the Lanier Family Foundation and 4,600 shares of common stock held by David G. Lanier. The address of the Lanier Family Foundation is Post Office Box 510, West Point, Georgia 31833.

(9) Represents 230 shares of common stock held by Elizabeth A. Everitt, 1,150 shares of common stock held by Tracy S. Everitt, 4,600 shares of common stock held by William J. Everitt, and 87,400 shares of common stock held by Waller D. Everitt. The address of Waller Everitt is 749 Harbour Isles Place, North Palm Beach, Florida 33410.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Some of our officers, directors and principal stockholders and their affiliates are customers of the Bank. Such officers, directors and principal stockholders and their affiliates have had transactions in the ordinary course of business with us, including borrowings, all of which were effected on substantially the same terms and conditions, including interest rate and collateral, as those prevailing from time to time for comparable transactions with unaffiliated persons, and did not involve more than the normal risk of collectability or other unfavorable features. We expect to continue to have such transactions on similar terms and conditions with such officers, directors and stockholders and their affiliates in the future.

In addition to the director and executive officer compensation arrangements discussed above under "Executive Compensation," the following is a summary of material provisions of various transactions we have entered into with our executive officers, directors, 5% or greater stockholders and entities affiliated with them since January 1, 2017. We believe the terms and conditions set forth in such agreements are reasonable and customary for transactions of this type.

Directed Share Program

At our request, the underwriters have reserved, at the initial public offering price, up to 200,000 shares offered by this offering circular, for sale to some of our officers, employees, related persons and certain other persons who are otherwise associated with us through a directed share program. Reserved shares purchased by our directors and officers will be subject to the lock-up provisions described below. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered by this offering circular. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sale of shares through the directed share program.

Review and Approval of Transactions with Related Persons

Transactions by us with related parties are subject to a formal written policy, as well as regulatory requirements and restrictions. These requirements and restrictions include Sections 23A and 23B of the Federal Reserve Act (which govern certain transactions by the Bank with its affiliates) and the Federal Reserve's Regulation O (which governs certain loans by the Bank to its executive officers, directors and principal stockholders). See "Supervision and Regulation – Transactions with Related Parties." We have adopted policies to comply with these regulatory requirements and restrictions.

We have adopted a related person transaction policy in order to comply with all applicable requirements of the SEC and The Nasdaq Stock Market concerning related party transactions. Related party transactions will be referred for approval or ratification to our audit committee. In determining whether to approve a related party transaction, our audit committee will consider, among other factors, the related party's relationship to the Bank, the nature of the proposed transaction, the nature of the related party's direct or indirect interest in the transaction, and the related party's relationship to or ownership interest in any other party to, or which has an interest in the transaction. A copy of this policy and our audit committee charter will be available on our corporate website.

DESCRIPTION OF CAPITAL STOCK

The following descriptions include summaries of the material terms of our capital stock. Because it is a summary, it may not contain all the information that is important to you. For a complete description, reference is made to the more detailed provisions of, and the descriptions are qualified in their entirety by reference to, our articles of incorporation, as amended (our "articles of incorporation"), and our bylaws (our "bylaws"), copies of which are filed with the FDIC as exhibits to the registration statement of which this offering circular is a part, and applicable law.

General

Our authorized capital stock consists of 50,000,000 shares of common stock, par value $1.00 per share, and 10,000,000 shares of preferred stock, par value $1.00 per share. As of September 30, 2018, after giving effect to the Stock Split, there were 934,349 shares of our common stock issued and outstanding, which were held by approximately 73 record holders. After giving effect to this offering, there will be 5,134,349 shares of common stock issued and outstanding (or 5,764,349 shares if the underwriters exercise their over-allotment option in full) and no shares of preferred stock issued and outstanding. This summary of the material rights and features of our capital stock does not purport to be exhaustive and is qualified in its entirety by reference to our articles of incorporation and bylaws, and to applicable Florida banking law.

Common Stock

Dividends.

Dividends may be declared and paid on our common stock from any lawfully available funds.

Liquidation or Dissolution.

In the event of a liquidation, dissolution, or winding-up of the Bank, holders of our common stock are entitled to share equally and ratably in our assets, if any, remaining after the payment of all debts and liabilities and the liquidation preference of any outstanding preferred stock.

Voting Powers.

Holders of our common stock are entitled to one vote per share on all matters on which the holders of common stock are entitled to vote. Under our bylaws, the holders of a majority of shares issued, outstanding, and entitled to vote, present in person or by proxy, will constitute a quorum to transact business, including the election of directors, except where the vote of a higher percentage of the shares issued, outstanding and entitled to vote is required by our articles of incorporation or our bylaws or by applicable law, in which case such higher percentage will be necessary to constitute a quorum with respect to the relevant matter. Once a quorum is present, except as otherwise provided by law, our articles of incorporation, our bylaws or in respect of the election of directors, all matters to be voted on by our stockholders must be approved by a majority of shares constituting a quorum. In the case of an election of directors, where a quorum is present a plurality of the votes cast will be sufficient to elect each director. No holders of our common stock are entitled to cumulative voting.

Pre-Emptive or Other Rights.

Generally, our common stockholders have no preemptive rights or other right to purchase, subscribe for or take any part of any shares of our capital stock of any class or series whatsoever. Nor do we have any sinking fund or redemption provisions applicable to our common stock.

Preferred Stock

Our board of directors is authorized, without stockholder approval and subject to any limitations prescribed by law, to provide for the issuance of the shares of preferred stock in classes, and by filing a certificate pursuant to the applicable law of the State of Florida, to establish from time to time the number of shares to be included in each such classes and to fix the designation, powers, preferences, and rights of the shares of each such classes and any qualifications, limitations, or restrictions thereof. Accordingly, our board of directors, without stockholder approval, may authorize the issuance of one or more classes of preferred stock with voting and conversion rights which could adversely affect the voting power of the holders of common stock and, under certain circumstances, discourage an attempt by others to gain control of us. The creation and issuance of any additional classes of preferred stock, and the relative rights, designations, and preferences of each such classes, if and when established, will depend on, among other things, our future capital needs, then existing market conditions, and other factors that, in the judgment of our board of directors, might warrant the issuance of preferred stock.

Our board of directors has the power to reclassify any unissued shares of any classes of preferred stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

Transfer Restrictions

The shares of common stock currently outstanding were offered and sold pursuant to an exemption from registration under the Securities Act, and other exemptions provided by the laws of the United States and other jurisdictions where such securities were offered and sold. Shares of our common stock may only be transferred or sold in compliance with all applicable state, federal and foreign securities laws.

Ownership Limitations

Federal and state banking laws prevent any holder of our capital stock from acquiring “control” of us, as defined under applicable statutes and regulations, without obtaining the prior approval of the Federal Reserve, the FDIC or the Florida OFR, as applicable.

Anti-takeover Effects

The provisions of our articles of incorporation and bylaws and Florida banking law summarized in the following paragraphs may have anti-takeover effects and may delay, defer, or prevent a tender offer or takeover attempt that a stockholder might consider to be in such stockholder’s best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders, and may make removal of management more difficult.

Authorized but Unissued Stock.

Upon the affirmative vote or written consent of at least a majority of our entire board of directors, the authorized but unissued shares of common stock and preferred stock will be available for future issuance without stockholder approval. These additional shares may be used for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of common stock and preferred stock may enable the board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise, and thereby protect the continuity of our management.

Number, Term, and Removal of Directors.

Our bylaws currently provide that the number of directors shall be fixed at eight, but our articles of incorporation provide that the number of directors may not consist of fewer than five. Our directors are elected yearly at the annual meeting of stockholders by a plurality vote of our stockholders. Any one or more of our directors may be removed from the board for any reason by the stockholders at a special meeting duly called for that purpose or with or without cause by the board of directors. Our bylaws provide that all vacancies on the board of directors may be filled by a majority of the remaining directors for the unexpired term. A majority of the board of directors may, at any time during the year following the annual meeting of stockholders, increase the number of directors by not more than two and appoint persons to fill the resulting vacancies.

Ability to Call a Special Meeting.

Our bylaws will provide that a special meeting of stockholders may be held for any purpose, and may be called by the holders of not less than 50% of our outstanding shares entitled to vote at the meeting requested to be called.

Action by Unanimous Written Consent.

Our bylaws provide that any action required or permitted to be taken by our stockholders at a meeting may be taken without a meeting by written consent of stockholders only.

Amendment of Bylaws.

Our board of directors has the power to repeal, alter, amend, and rescind our bylaws in compliance with applicable law.

Limitation of Liability for Directors

Our bylaws provide that a member of our board of directors shall not be personally liable to us or our stockholders for monetary damages in their official capacity except as provided by applicable banking law.

Stockholder Vote on Fundamental Issues

Under Florida banking law, a plan of merger by a bank must generally be approved by the affirmative vote of the holders of at least a majority of the votes entitled to be cast on the plan regardless of the class or voting group to which the shares belong, and a majority of the votes entitled to be cast on the plan within each voting group entitled to vote as a separate voting group on the plan. A corporation’s articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of the votes entitled to be cast on the plan by each voting group entitled to vote separately on the plan. Our articles of incorporation and bylaws do not alter the default rules of Florida law.

UNDERWRITING

We and the underwriters named below have entered into an underwriting agreement with respect to the shares of common stock being offered by this offering circular. B. Riley FBR, Inc. is acting as the sole representative of the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the initial public offering price less the underwriting discounts set forth on the cover page of this offering circular, the number of shares of common stock listed next to its name in the following table:

Underwriter	Number of Shares
B. Riley FBR, Inc.	
Hovde Group, LLC	
Total	

The underwriters are committed to purchase all the common stock offered by us, other than those covered by the underwriters' option to purchase additional shares set forth below, if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or this offering may be terminated.

Commissions and discounts

The underwriters are offering the common stock directly to the public at the initial public offering price set forth on the cover page of this offering circular and to certain dealers at that price less a concession not in excess of $ per share. After the initial public offering of the shares, the offering price and other selling terms may be changed by the underwriters.

The underwriters have an option to buy up to 630,000 additional shares of common stock from us. The underwriters have 30 days from the date of this offering circular to exercise this option. If any shares are purchased with this option to purchase additional shares, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting fee is equal to the initial public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The following table shows the per share and total underwriting discounts and proceeds before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 630,000 shares of our common stock.

	Per share		Total	
	No exercise	Full exercise	No exercise	Full exercise
Underwriting discounts to be paid by us	$	$	$	$
Proceeds, before expenses, to us[(1)]	$	$	$	$

(1) The per share and total underwriting discounts and the proceeds amounts in the table above do not give effect to the fact that no underwriting discounts will be paid with respect to up to 200,000 shares of common stock to be sold pursuant to the directed share program.

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts, will be approximately $800,000. We have agreed to reimburse the underwriters for costs associated with background checks on our directors and management, and for expenses related to the roadshow, including travel, in an amount not to exceed $350,000. We have also agreed to reimburse the underwriters for expenses related to this offering (excluding

legal expenses) up to an amount up to $20,000 and for underwriters' counsel's fees in connection with the FINRA filings, up to $10,000. Such reimbursement is deemed to be underwriting compensation by the Financial Industry Regulatory Authority ("FINRA").

Electronic distribution

An offering circular in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representative to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

Directed share program

At our request, the underwriters have reserved, at the initial public offering price, up to 200,000 shares offered by this offering circular, for sale to some of our officers, employees, related persons and certain other persons who are otherwise associated with us through a directed share program. The underwriters will receive no commission on the sale of these shares through the directed share program. Reserved shares purchased by our directors and officers will be subject to the lock-up provisions described below. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered by this offering circular. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sale of shares through the directed share program.

Lock-up agreements

We have agreed that, subject to certain limited exceptions, we will not (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, or file with the FDIC a Form 10 registration statement relating to (other than as contemplated by this offering), any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (ii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any shares of common stock or any such other securities, whether any of these transactions described in clause (i) or (ii) above are to be settled by the delivery of shares of common stock or such other securities, in cash or otherwise, in each case without the prior written consent of the representative for a period of 180 days after the date of this offering circular.

Our directors and executive officers and certain stockholders have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, for a period of 180 days after the date of this offering circular, may not, without the prior written consent of the representative, subject to specified exceptions, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock (including, without limitation, common stock or such other securities convertible into or exercisable into or exchangeable for common stock beneficially owned by such stockholders, directors and executive officers in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant), or publicly disclose the intention to make any offer, sale, pledge or disposition, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock or such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of common stock or such

other securities, in cash or otherwise, or (iii) make any demand for or exercise any right with respect to the registration of, or a Form 10 relating to, any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock.

Indemnification

We have agreed to indemnify the underwriters against certain liabilities.

Price stabilization, short positions and penalty bids

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option to purchase additional shares referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their option to purchase additional shares, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representative of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representative can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq Capital Market, in the over-the-counter market or otherwise.

Pricing of the offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representative of the underwriters. In determining the initial public offering price, we and the representative of the underwriters considered a number of factors including:

- the valuation multiples of publicly-traded companies that the representatives believe to be comparable to us,
- our financial information,
- the history of, and the prospects for, our company and the industry in which we compete,
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues,

- the present state of our development and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

Neither we nor the underwriters can assure investors that an active trading market will develop for our common stock, or that the shares will trade in the public market at or above the initial public offering price. Our common stock has been approved for listing on the Nasdaq Capital Market under the symbol "BFL," subject to official notice of issuance.

Affiliations

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

We have granted B. Riley FBR a right of first refusal under certain circumstances to act as (1) financial advisor in connection with any purchase of sale of assets or stock, merger, acquisition, business combination, joint venture or other strategic transaction and (2) the lead underwriter and sole book runner in connection with any subsequent public offering of equity, equity-linked, or debt securities or other capital markets financing by us. Subject to completion of this offering, this right of first refusal extends for two years from the date of completion of this offering. The terms of any such engagement of B. Riley FBR will be determined by separate agreement.

Notice to Canadian Residents

This document constitutes an "exempt offering document" as defined in and for the purposes of applicable Canadian securities laws. No prospectus has been filed with any securities commission or similar regulatory authority in Canada in connection with the offer and sale of the securities described herein (the "Securities"). No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this document or on the merits of the Securities and any representation to the contrary is an offence.

Canadian investors are advised that this document has been prepared in reliance on section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"). Pursuant to section 3A.3 of NI 33-105, this document is exempt from the requirement that the Bank and the underwriters in the offering provide Canadian investors with certain conflicts of interest disclosure pertaining to "connected issuer" and/or "related issuer" relationships that may exist between the Bank and the placement agent as would otherwise be required pursuant to subsection 2.1(1) of NI 33-105.

Resale Restrictions

The offer and sale of the Securities in Canada is being made on a private placement basis only and is exempt from the requirement that the Bank prepares and files a prospectus under applicable Canadian securities laws. Any resale of the Securities acquired by a Canadian investor in this offering must be made in accordance with applicable Canadian securities laws, which may vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with Canadian prospectus requirements, a statutory exemption from the prospectus requirements, in a transaction exempt from the prospectus requirements or otherwise under a discretionary exemption from the prospectus requirements granted by the applicable local Canadian securities regulatory authority. These resale restrictions may under certain circumstances apply to resales of the Securities outside of Canada.

Representations of Purchasers

Each Canadian investor who purchases the Securities will be deemed to have represented to the Bank, the underwriters and to each dealer from whom a purchase confirmation is received, as applicable, that the investor (i) is purchasing as principal, or is deemed to be purchasing as principal in accordance with applicable Canadian securities laws for investment only and not with a view to resale or redistribution; (ii) is an "accredited investor" as such term is defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions* ("NI 45-106") or, in Ontario, as such term is defined in section 73.3(1) of the *Securities Act* (Ontario); and (iii) is a "permitted client" as such term is defined in section 1.1 of National Instrument 31-103.

Registration Requirements, Exemptions and Ongoing Registrant Obligations.

Taxation and Eligibility for Investment

Any discussion of taxation and related matters contained in this document does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a Canadian investor when deciding to purchase the Securities and, in particular, does not address any Canadian tax considerations. No representation or warranty is hereby made as to the tax consequences to a resident, or deemed resident, of Canada of an investment in the Securities or with respect to the eligibility of the Securities for investment by such investor under relevant Canadian federal and provincial legislation and regulations.

Rights of Action for Damages or Rescission

Securities legislation in certain provinces or territories of Canada may provide certain purchasers of securities pursuant to an offering memorandum (such as this document), including where the distribution involves an "eligible foreign security" as such term is defined in Ontario Securities Commission Rule 45-501 *Ontario Prospectus and Registration Exemptions* and in Multilateral Instrument 45-107 *Listing Representation and Statutory Rights of Action Disclosure Exemptions*, as applicable, with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum, or other offering document that constitutes an offering memorandum, and any amendment thereto, contains a "misrepresentation" as defined under applicable Canadian securities laws. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed under, and are subject to limitations and defenses under, applicable Canadian securities legislation. In addition, these remedies are in addition to and without derogation from any other right or remedy available at law to the investor. Canadian investors should refer to any applicable provisions of the securities legislation of the investor's province or territory for particulars of these rights or consult with a legal advisor.

Language of Documents

Upon receipt of this document, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the offering of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à l'offre des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering there has been no established public market for our common stock. A significant public market for our common stock may never develop or be sustained. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of common stock (including shares issued on the exercise of options, warrants or convertible securities, if any) or the perception that such sales could occur, could adversely affect the market price of our common stock and our ability to raise additional capital through a future sale of securities.

Because we are a bank, offers and sales of shares of our common stock are not subject to the registration requirements of the Securities Act. Except for the lock-up agreements (see "Underwriting"), all of our outstanding shares may be resold without restriction or registration under the Securities Act. After completion of the offering, we will have 5,134,349 shares issued and outstanding (5,764,349 shares if the underwriters' over-allotment option is exercised in full).

Taking into account the lock-up agreements described below, and assuming the underwriters do not release any parties from these agreements, the following shares will be eligible for sale in the public market at the following times, assuming the successful completion of this offering:

- Beginning on the effective date of this offering, the shares of common stock sold in this offering to persons other than our management team and the other shares of common stock not subject to lock-up agreements, or approximately 4,584,703 shares, will be immediately available for sale in the public market; and
- Beginning 180 days after the date of this offering circular, the expiration date for the lock-up agreements, approximately an additional 549,646 shares of common stock will be eligible for sale.

Lock-Up Agreements. See the section entitled "Underwriting" for a description of lock-up agreements in connection with this offering.

CHANGE IN ACCOUNTANTS

On June 6, 2018, the board of directors of the Bank dismissed Saltmarsh, Cleaveland & Gund as independent accountants and retained Dixon Hughes Goodman LLP. Saltmarsh, Cleaveland & Gund's report of the financial statements of the Bank for the past two years did not contain an adverse opinion or disclaimer of opinion nor was it qualified or modified as to uncertainty, audit scope, or accounting principles. During the prior fiscal year and the interim period preceding the dismissal, there were no disagreements with Saltmarsh, Cleaveland & Gund on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of such accountants, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

LEGAL MATTERS

Smith Mackinnon, PA, Orlando, Florida, will pass upon the validity of the shares of our common stock offered under this offering circular. Nelson Mullins Riley & Scarborough LLP, Washington, D.C., will act as counsel to the underwriters.

EXPERTS

The financial statements of BankFlorida (formerly FirstCity Bank of Commerce) as of and for the years ended December 31, 2017 and 2016, have been included in reliance upon the report of Dixon Hughes Goodman LLP, an independent registered public accounting firm, appearing elsewhere herein, given on the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are not required to file reports with the SEC or the FDIC or to deliver an annual report to holders of our common stock pursuant to the Exchange Act.

We have filed a registration statement with the FDIC to register our common stock under Section 12(b) of the Exchange Act. Upon effectiveness of our registration statement, we will be subject to the reporting and other requirements of the FDIC, which are substantially similar to the reporting requirements of the Exchange Act. In accordance with Sections 12, 13 and 14 of the Exchange Act and as a bank that is not a member of the Federal Reserve System, we will file certain reports, proxy materials, information statements and other information with the FDIC, copies of which can be inspected and copied at the public reference facilities maintained by the FDIC, at the Public Reference Section, Room F-6043, 550 17th Street, N.W., Washington, DC 20429. Requests for copies may be made by telephone at (202) 898-8913 or by fax at (202) 898-3909. Certain financial information filed by us with the FDIC is also available electronically at the FDIC's website at http://www.fdic.gov/efr/, which after the offering will include the Exchange Act and certain other filings we make with the FDIC.

We also maintain an "Investor Relations" page on our website containing additional information about us at http://www.bankflorida.com, which information after the offering will include the Exchange Act filings and certain other filings we make with the FDIC. None of the information about us maintained on the FDIC's website or our website is incorporated into this offering circular by reference.

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FIRSTCITY BANK OF COMMERCE
STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except Share Information)
(unaudited)

	September 30, 2018	December 31, 2017[1]
ASSETS		
Cash and due from banks	$ 1,744	$ 2,001
Interest-bearing deposits in banks	3,601	549
Federal funds sold	—	2,167
Total cash and cash equivalents	5,345	4,717
Securities available-for-sale	12,732	1,834
Securities held-to-maturity	—	13,839
Restricted equity securities	305	348
Portfolio loans, net of allowance of $797 in 2018 and $664 in 2017	66,538	64,701
Other Loans:		
Loans held for sale	—	270
Warehouse loans held for investment	2,101	—
Total Other Loans	2,101	270
Accrued interest receivable	255	287
Premises and equipment, net	3,194	143
Deferred income taxes	131	273
Cash surrender value of life insurance	1,031	1,008
Other assets	414	426
Total assets	$92,046	$87,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 7,805	$10,638
Interest-bearing demand	3,091	3,325
Savings and money market	41,164	31,428
Time	27,185	27,469
Total deposits	79,245	72,860
Federal Home Loan Bank advances	3,200	6,000
Accrued interest payable	52	38
Accrued expenses and other liabilities	228	77
Total liabilities	82,725	78,975
Stockholders' equity:		
Preferred stock: $1 par value; 5,000,000 shares authorized; 859,666 shares issued and outstanding	860	860
Common stock: $5 par value; 5,000,000 shares authorized; 1,171,540 issued and outstanding.	5,858	5,858
Additional paid-in capital	7,566	7,566
Accumulated deficit	(5,369)	(5,355)
Accumulated other comprehensive income (loss)	406	(58)
Total stockholders' equity	9,321	8,871
Total liabilities and stockholders' equity	$92,046	$87,846

(1) Derived from 2017 Audited Financial Statements

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF INCOME
(Dollars in Thousands, Except Share Information)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest and dividend income:				
Loans, including fees	$ 829	$ 813	$2,372	$2,378
Investment securities	158	108	477	271
Other interest earning assets	29	25	84	62
Total interest and dividend income	1,016	946	2,933	2,711
Interest expense:				
Deposits	264	183	674	532
Federal Home Loan Bank advances	16	23	74	55
Total interest expense	280	206	748	587
Net interest income	736	740	2,185	2,124
Provision for portfolio loan losses	—	—	19	42
Net interest income after provision for portfolio loan losses	736	740	2,166	2,082
Noninterest income:				
Service charges and fees	17	23	54	82
Loss on sale of securities	—	—	(17)	—
Gain on sale of loans held-for-sale	52	14	124	75
Other	9	10	31	31
Total noninterest income	78	47	192	188
Noninterest expense:				
Salaries and benefits	427	377	1,207	1,095
Occupancy and equipment	87	61	268	192
Data processing	82	126	231	335
Regulatory assessments	23	13	49	55
Professional fees	184	69	341	115
Other	95	75	284	209
Total noninterest expense	898	721	2,380	2,001
Income (loss) before income tax expense (benefit)	(84)	66	(22)	269
Income tax expense (benefit)	(19)	23	(8)	(265)
Net income (loss)	(65)	43	(14)	534
Preferred stock dividends	$ —	$ —	$ —	$ 27
Income available (loss attributable) to common stockholders	$ (65)	$ 43	$ (14)	$ 507
Earnings (loss) per share:				
Basic	$ (0.06)	$0.04	$ (0.01)	$ 0.43
Diluted	$ (0.06)	$0.04	$ (0.01)	$ 0.43

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ (65)	$ 43	$ (14)	$534
Other comprehensive income:				
Change in securities available-for-sale:				
Unrealized holding gains arising during the period	52	4	606	40
Less reclassification adjustments for losses recognized in income	—	—	17	—
Net unrealized gains	52	4	623	40
Income tax effect (benefit)	13	(1)	159	13
Net of tax effect	39	5	464	27
Total other comprehensive income	39	5	464	27
Comprehensive (loss) income	$ (26)	$ 48	$451	$561

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in Thousands, Except Share Information)
(unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
For the nine months ended September 30, 2018:						
Balance at December 31, 2017	$860	$5,858	$7,566	$(5,355)	$ (58)	$8,871
Net loss	—	—	—	(14)	—	(14)
Other comprehensive income	—	—	—	—	464	464
Balance at September 30, 2018	$860	$5,858	$7,566	$(5,369)	$406	$9,321
For the nine months ended September 30, 2017:						
Balance at December 31, 2016	$536	$5,858	$6,926	$(5,485)	$ (96)	$7,739
Net income	—	—	—	534	—	534
Prior period adjustment				(36)		
Issuance of preferred stock	324	—	640	—	—	964
Dividends, $0.05 per common share	—	—	—	(85)	—	(121)
Other comprehensive income	—	—	—	—	27	27
Balance at September 30, 2017	$860	$5,858	$7,566	$(5,072)	$ (69)	$9,143

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

FIRSTCITY BANK OF COMMERCE
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	$ (14)	$ 534
Adjustments to reconcile net income to net cash from operating activities:		
Provision for portfolio loan losses	19	42
Gain on sale of loans held-for-sale	(124)	(75)
Proceeds from sales of loans held-for-sale	9,305	2,407
Originations of loans held for sale	(8,894)	(2,332)
Loss on sale of securities	17	—
Prior period adjustment	—	(36)
Depreciation expense	92	69
Deferred tax (expense) benefit	142	(341)
Net change in cash surrender value of bank owned life insurance	(23)	(25)
Net change in accrued interest receivable	32	(20)
Net change in accrued interest payable	14	13
Net change in other assets	10	(406)
Net change in accrued expenses and other liabilities	(17)	(73)
Net cash provided by operating activities	710	(243)
Cash flows from investing activities:		
Net increase (decrease) in interest bearing deposits at other banks	(3,052)	3,015
Net increase (decrease) in federal funds sold	2,167	(3,741)
Proceeds from maturities and payments of investment securities	1,530	91
Proceeds from sales of securities available-for-sale	1,858	—
Purchase of securities held-to-maturity	—	(6,219)
Proceeds from securities held-to-maturity	—	2,701
Net change in portfolio loans	(1,856)	2,497
Change in warehouse loans	(2,101)	—
Purchase of premises and equipment	(3,143)	(75)
Purchase of Federal Home Loan Bank stock	(265)	(17)
Redemption of Federal Home Loan Bank stock	307	—
Redemption of other investments	—	5
Net cash used in investing activities	(4,554)	(1,743)
Cash flows from financing activities:		
Net change in deposits	6,385	497
Proceeds from Federal Home Loan Bank advances	9,200	—
Repayment of Federal Home Loan Bank advances	(12,000)	(667)
Issuance of preferred stock	—	963
Dividends	—	(85)
Net cash provided by financing activities	3,586	708
Net increase (decrease) in cash and due from banks	(257)	(1,278)
Cash and due from banks, beginning of period	2,001	3,658
Cash and due from banks, end of period	$ 1,744	$ 2,380
Supplemental disclosures of cash flow information:		
Interest paid	$ 732	$ 193
Income taxes (refunded) paid	(140)	$ 150
Supplemental disclosures of non-cash information:		
Unrealized gains on securities, net of tax	$ 465	$ 28
Transfer of debt securities available-for-sale to held-to-maturity	$ 13,839	$ —

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

FIRSTCITY BANK OF COMMERCE
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2018
(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements (the "Financial Statements") and these notes to the Financial Statements (these Notes) have been prepared for FirstCity Bank of Commerce (the "Bank").

The accompanying statement of financial condition as of December 31, 2017, which was derived from the Bank's audited financial statements, and the unaudited condensed financial statements as of September 30, 2018, and for the three and nine months ended September 30, 2018 and 2017, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information of smaller reporting companies and with Article 8 and Article 9 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for a complete financial statement presentation. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary (i) for a fair presentation and (ii) to make such statements not misleading, have been included.

Operating results for the three and nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The audited financial statements presented in the Bank's Annual Report for the year ended December 31, 2017, should be read in conjunction with these Financial Statements.

Certain items in the current year's financial statements have been reclassified to more accurately present related financial statement line items while the prior period financial statements are as previously reported. The reclassifications had no effect on net income or stockholders' equity.

The preparation of the Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions based on experience and available information that affect the amounts reported in the Financial Statements and these Notes, and actual results could differ materially from these estimates. Estimates associated with the allowance for portfolio loan losses (the allowance), measuring for impairment of troubled debt restructurings (TDR), the fair values of securities and other financial instruments and the realization of deferred tax assets are particularly susceptible to material change in the near term.

Accumulated other comprehensive income consists solely of the effects of unrealized gains and losses on securities available-for-sale, net of income taxes.

NOTE 2. IMPACT OF CERTAIN ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements:

FirstCity Bank of Commerce is an "emerging growth company." As an "emerging growth company," we have elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to the financial statements of private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

The FASB has issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." On December 22, 2017, the U.S. federal government enacted the Tax Act. Stakeholders in the banking and insurance industries expressed concern about the guidance in current generally accepted accounting principles (GAAP) that requires

NOTE 2. IMPACT OF CERTAIN ACCOUNTING PRONOUNCEMENTS (continued)

deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (rather than in income from continuing operations). Those stakeholders asserted that because the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects) do not reflect the appropriate tax rate. The amendments in this update affect any entity that is required to apply the provisions of Topic 220, Income Statement—Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. The amendments only relate to the reclassification of the income tax effects of the Tax Act; the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update also require certain disclosures about stranded tax effects. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. In December 2017, as a result of Tax Cuts and Jobs Act that resulted in a decrease in the federal corporate income tax rate from 34% to 21%, the Bank experienced a reduction in its deferred tax assets of $132,220.

The FASB has issued ASU No. 2018-07, “Compensation—Stock Compensation (Topic 718)—Improvements to Nonemployee Share-Based Payment Accounting,” to include share based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018 but no earlier than an entity’s adoption date of Topic 606. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but it is not expected to have a material impact.

The FASB has issued ASU No. 2018-13, “Fair Value Measurement (Topic 820)—Changes to the Disclosure Requirements for Fair Value Measurement,” to modify the disclosure requirements on fair value measurements in Topic 820 based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The following disclosure requirements were removed from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; (3) the

NOTE 2. IMPACT OF CERTAIN ACCOUNTING PRONOUNCEMENTS (continued)

valuation processes for Level 3 fair value measurements; and (4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The following disclosure requirements were modified in Topic 820: (1) in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added to Topic 820: (1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but it is not expected to have a material impact.

The FASB has issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting.* This ASU clarifies when changes to the term or conditions of a share-based payment award must be accounted for as a modification. Under this ASU, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: 1) The fair value; 2) the award's vesting conditions; and 3) the award's classification as an equity or liability instrument. ASU No. 2017-09 was adopted January 1, 2018 and did not have a material impact on the Bank's Financial Statements.

The FASB has issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for fiscal years, beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Bank will evaluate the guidance in this update but does not expect it to have a significant impact on its financial position or result of operations.

The FASB has issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326).* The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each

NOTE 2. IMPACT OF CERTAIN ACCOUNTING PRONOUNCEMENTS (continued)

reporting date. To achieve this objective, the guidance in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The guidance in this update is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Bank is currently evaluating this guidance to determine the impact on its Financial Statements.

The FASB has issued ASU 2016-02, *Leases (Topic 842).* The new guidance requires lessees to recognize lease assets and lease liabilities related to certain operating leases on their balance sheet and disclose key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Bank is currently evaluating this guidance to determine the impact on its financial statements. The Bank leases certain properties under operating leases that will result in recognition on the Bank's Statement of Financial Condition. At December 31, 2017, the Bank had contractual operating lease commitments of approximately $191,000, before considering any renewal options.

The FASB has issued ASU No. 2016-01, *Financial Instruments—Recognition and Measurement of Financial Assets and Liabilities*. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are or accounted for under the equity method of accounting. The guidance allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The guidance also: requires public companies to use exit prices to measure the fair value of financial instruments for disclosure purposes; 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 eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, the guidance requires that for liabilities measured at fair value under the fair value option, changes in fair value due to changes in instrument-specific credit risk be presented in other comprehensive income. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Adoption of ASU No. 2016-01 is not expected to have a material impact on the Bank's Financial Statements.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to 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. The guidance in this update is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. As allowed by this ASU the Bank is permitted to adopt using the full retrospective transition method for all periods presented, or modified retrospective method where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. The Bank has performed an analysis over its revenue streams and determined those within the scope of ASU No. 2014-09 are primarily from service charges on deposit accounts. The Bank is expected to use a modified retrospective approach to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption. The impact of guidance in this update, including method of implementation, is not expected to have a material impact on the Bank's Financial Statements.

NOTE 3. TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties at September 30, 2018 or December 31, 2017.

NOTE 4. FAIR VALUE

Asset and liability fair value measurements (in this Note and *Note 5. Fair Value of Financial Instruments* of these Notes) have been categorized based upon the fair value hierarchy described below:

- Level 1—Valuation is based upon quoted market prices for identical instruments in active markets.
- Level 2—Valuation is based upon observable inputs other than quoted market prices included within Level 1, including quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3—Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates or assumptions that market participants would use in pricing the assets or liabilities. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

Assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, are summarized below:

		Fair Value Hierarchy		
	Total	Level 1	Level 2	Level 3
	(Dollars in Thousands)			
September 30, 2018				
Assets:				
Securities available-for-sale	$12,732	$—	$12,732	$—
December 31, 2017				
Assets:				
Securities available-for-sale	$ 1,834	$—	$ 1,834	$—

The fair values of securities available-for-sale are determined by quoted market prices, if available (Level 1). For securities available-for-sale where quoted market prices are not available, fair values are calculated based on quoted market prices of similar securities (Level 2). For securities available-for-sale where quoted market prices or quoted market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

There were no Level 3 investments measured on a recurring basis as of September 30, 2018 and December 31, 2017, and there were no transfers into or out of Level 3 investments during the three and nine months ended September 30, 2018 and the year ended December 31, 2017.

NOTE 4. FAIR VALUE (continued)

Assets measured at fair value on a nonrecurring basis as of September 30, 2018 and December 31, 2017, are summarized below:

	Total	Fair Value Hierarchy Level 1	Level 2	Level 3
	(Dollars in Thousands)			
September 30, 2018				
Assets:				
Impaired loans, net	$1,028	$—	$—	$1,028
December 31, 2017				
Assets:				
Impaired loans, net	$ 691	$—	$—	$ 691

Quantitative information about Level 3 fair value measurements as of September 30, 2018 and December 31, 2017, is as follows:

	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)[1]
			(Dollars in Thousands)	
September 30, 2018				
Assets:				
Impaired loans, net	$1,028	Broker price opinions, appraisal of collateral[2),(3)]	Appraisal adjustments[4] Liquidation expenses	0.0% to 10.0% (5.0%) 10.00% to 75.0% (36.4%)
December 31, 2017				
Assets:				
Impaired loans, net	$ 691	Appraisal of collateral[(2)(3)]	Appraisal adjustments[4] Liquidation expenses	0.0% to 10.0% (10.00%) 15.0% to 75.0% (40.8%)

(1) The range and weighted average of other appraisal adjustments and liquidation expenses are presented as a percent of the appraised value.
(2) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.
(4) Appraisals may be adjusted by management for qualitative factors such as economic conditions.

There are no liabilities measured at fair value on a nonrecurring basis as of September 30, 2018 and December 31, 2017.

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair value of financial instruments, not previously presented, as of September 30, 2018 and December 31, 2017, were as follows:

	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level 1	Level 2	Level 3
	(Dollars in Thousands)				
September 30, 2018					
Assets:					
Cash and due from banks	$ 1,744	$ 1,744	$1,744	$ —	$—
Interest-earning deposits in banks	3,601	3,601	3,601	—	—
Securities available for sale	12,732	12,732	—	12,732	—
Portfolio loans, net	66,538	65,570	—	65,570	—
Other loans (loans held for sale and warehouse loans held					
for investment	2,101	2,109	—	2,109	—
Restricted equity securities	305	305	—	305	—
Cash surrender value of life insurance	1,031	1,031	—	1,031	—
Accrued interest receivable	255	255	—	255	—
Liabilities:					
Deposits	79,245	77,689	—	77,689	—
Federal Home Loan Bank advances	3,200	3,162	—	3,162	—
Accrued interest payable	52	52	—	52	—
December 31, 2017					
Assets:					
Cash and due from financial institutions	$ 2,001	$ 2,001	$2,001	$ —	$—
Short-term interest-earning deposits	2,716	2,716	2,716	—	—
Securities held-to-maturity	13,839	13,861	—	13,861	—
Securities available-for-sale	1,834	1,834	—	1,834	—
Portfolio loans, net	64,701	63,694	—	63,694	—
Loans held-for-sale	270	270	—	270	—
Restricted equity securities	348	348	—	348	—
Cash surrender value of life insurance	1,008	1,008	—	1,008	—
Accrued interest receivable	287	287	—	287	—
			—		—
Liabilities:					
Deposits	72,860	69,700	—	69,700	—
Federal Home Loan Bank advances	6,000	6,000	—	6,000	—
Accrued interest payable	38	38	—	38	—

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest, demand and savings deposits and variable rate loans or deposits that re-price frequently and fully. Fair value of securities held-to-maturity is based on market prices of similar securities. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life without considering the need for adjustments for market

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

illiquidity or credit risk. Fair value of loans held-for-sale is based on quoted market prices, where available, or is determined based on discounted cash flows using current market rates applied to the estimated life and credit risk. Carrying amount is the estimated fair value for warehouse loans held-for-investment, due to the rapid repayment of the loans (generally less than 30 days). Fair value of bank owned life insurance is based on the insurance contract cash surrender value or quoted market prices of the underlying securities or similar securities. Fair value of the Federal Home Loan Bank (FHLB) advances is based on current rates for similar financing. It was not practicable to determine the fair value of the FHLB stock due to restrictions placed on its transferability. The estimated fair value of other financial instruments and off-balance-sheet commitments approximate cost and are not considered significant to this presentation.

The Bank is a member of the FHLB and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100.00 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. Accordingly, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time that such a situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB. The Bank did not consider the FHLB stock to be impaired as of September 30, 2018 and December 31, 2017.

NOTE 6. INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the investment securities and the corresponding amounts of unrealized gains and losses therein as of September 30, 2018 and December 31, 2017:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Carrying Amount
	(Dollars in Thousands)				
September 30, 2018					
Available-for-sale					
Mortgage-backed securities	$11,938	$682	$(137)	$12,483	$12,483
Corporate bonds	$ 249	—	—	249	249
Total investment securities	$12,187	$682	$(137)	$12,732	$12,732
December 31, 2017					
Available-for-sale					
Mortgage-backed securities	$ 392	$—	$ (11)	$ 381	$ 381
Corporate bonds	1,469	—	(16)	1,453	1,453
Held-to-maturity					
Mortgage-backed securities	13,839	357	(39)	14,157	13,839
Total investment securities	$15,700	$357	$ (66)	$15,991	$15,673

NOTE 6. INVESTMENT SECURITIES (continued)

The amortized cost and fair value of investment securities, segregated by contractual maturity as of September 30, 2018, are shown below:

	Amortized Cost	Fair Value
	(Dollars in Thousands)	
Due in one year or less	$ —	$ —
Due in more than one to five years	249	249
Due in more than five to ten years	—	—
Due after ten years	—	—
Mortgage-backed securities	11,938	12,483
	$12,187	$12,732

Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Investment securities not due at a single maturity date, including mortgage-backed securities and collateralized mortgage obligations, are shown separately.

The following table summarizes the investment securities with unrealized losses as of September 30, 2018 and December 31, 2017, aggregated by investment category and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in Thousands)			
September 30, 2018						
Available-for-sale						
Mortgage-backed securities	$—	$—	$2,705	$137	$2,705	$137
Corporate Bonds	—	—	—	—	—	—
	$—	$—	$2,705	$137	$2,705	$137
December 31, 2017						
Available-for-sale						
Mortgage-backed securities	$—	$—	$ 380	$ 11	$ 380	$ 11
Corporate bonds	—	—	1,453	16	1,453	16
Held-to-maturity						
Mortgage-backed securities	$—	$—	$2,279	$ 39	$2,279	$ 39
	$—	$—	$4,112	$ 66	$4,112	$ 66

Other-Than-Temporary Impairment

Management evaluates investment securities for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. As of September 30, 2018, the Bank's security portfolio consisted of 14 investment securities (all classified as available-for-sale), 6 of which were in an unrealized loss position. The unrealized losses were primarily related to debt securities whose underlying collateral is residential mortgages and all of these debt securities were issued by government sponsored organizations, as discussed below.

NOTE 6. INVESTMENT SECURITIES (continued)

The decline in fair value of the Bank's debt securities in an unrealized loss position was attributable to changes in interest rates and not credit quality. It is not more likely than not the Bank will be required to sell those securities before their anticipated recovery; however, from time to time the Bank makes decisions to sell securities available-for-sale as part of its balance sheet and risk management strategies. Therefore, the Bank does not consider these debt securities to be other-than-temporarily impaired as of September 30, 2018.

The Bank did not hold any non-agency collateralized mortgage-backed securities or collateralized mortgage obligations as of September 30, 2018 and December 31, 2017, and did not record OTTI related to such securities during the three and nine months ended September 30, 2018 and 2017.

Proceeds from Investment Securities

Subsequent to December 31, 2017, the Bank sold certain corporate and mortgage-backed securities which were at an unrealized loss position as of December 31, 2017. The sale consisted of approximately $1.2 million in available-for-sale securities and $0.7 million in held-to-maturity securities recognizing a loss of $93,000 from the sale. The Bank recorded OTTI charges of $30,000 on these securities as of December 31, 2017 and a loss of $17,000 during the nine month period ended September 30, 2018.

There were no sales of investment securities during the three or nine month periods ending September 30, 2018 or 2017.

Gains and losses on sales of investment securities are recorded on the trade date and are determined using the specific identification method. There were no unsettled investment securities transactions at September 30, 2018.

NOTE 7. PORTFOLIO LOANS

Following is a comparative composition of net portfolio loans as of September 30, 2018 and December 31, 2017:

	September 30, 2018	% of Total Loans	December 31, 2017	% of Total Loans
	(Dollars in Thousands)			
Real estate loans:				
One- to four-family	$26,578	39.8%	$31,473	48.7%
Commercial	21,669	32.5%	22,262	34.4%
Home equity	2,493	3.7%	2,458	3.8%
Multi-family	4,777	7.1%	3,928	6.1%
Total real estate loans	55,517	83.1%	60,121	93.0%
Commercial business loans	11,119	16.7%	4,432	6.9%
Consumer loans	146	0.2%	108	0.1%
Total portfolio loans	66,782	100.0%	64,661	100.0%
Allowance for portfolio loan losses	(797)		(664)	
Net deferred portfolio loan costs	116		105	
Premiums and discounts on purchased loans, net	437		599	
Portfolio loans, net	$66,538		$64,701	
Total other loans (held for sale and warehouse loans held for investment)	$ 2,101		$ 270	

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents the contractual aging of the recorded investment in past due loans by class of portfolio loans as of September 30, 2018 and December 31, 2017:

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	> 90 Days Past Due	Total Past Due	Total
			(Dollars in Thousands)			
September 30, 2018						
Real estate loans:						
One- to four-family	$26,314	$—	$ 264	$ —	$ 264	$26,578
Commercial	21,152	—	—	517	517	21,669
Home equity	2,493	—	—	—	—	2,493
Multi-family	4,777	—	—	—	—	4,777
Total real estate loans	54,736	—	264	517	781	55,517
Commercial business loans	9,598	—	1,521	—	1,521	11,119
Consumer loans	146	—	—	—	—	146
Total portfolio loans	$64,480	$—	$1,785	$ 517	$2,302	$66,782
December 31, 2017						
Real estate loans:						
One- to four-family	$29,360	$420	$ 876	$ 817	$2,113	$31,473
Commercial	22,262	—	—	—	—	22,262
Home equity	2,020	—	438	—	438	2,458
Multi-family	3,928	—	—	—	—	3,928
Total real estate loans	57,570	420	1,314	817	2,551	60,121
Commercial business loans	2,552	172	939	769	1,880	4,432
Consumer loans	108	—	—	—	—	108
Total portfolio loans	$60,230	$592	$2,253	$1,586	$4,431	$64,661

Nonperforming portfolio loans, including nonaccrual portfolio loans, as of September 30, 2018 and December 31, 2017 were $1.2 million and $0.9 million, respectively. There were no loans 90 days past due and still accruing as of September 30, 2018. Loans over 90 days past due and still accruing totaled $0.8 million at December 31, 2017. Nonperforming portfolio loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and larger individually evaluated loans classified as impaired loans that are not accruing interest.

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents performing and nonperforming portfolio loans by class of loans as of September 30, 2018 and December 31, 2017:

	Performing	Nonperforming	Total
		(Dollars in Thousands)	
September 30, 2018			
Loans secured by real estate:			
One- to four-family	$26,578	$ —	$26,578
Commercial	21,152	517	21,669
Home Equity	2,493	—	2,493
Multi-family	4,777	—	4,777
Commercial business loans	10,395	724	11,119
Consumer	146	—	146
Total portfolio loans	$65,541	$1,241	$66,782
December 31, 2017			
Loans secured by real estate:			
One- to four-family	$31,473	$ —	$31,473
Commercial	22,262	—	22,262
Home Equity	2,458	—	2,458
Multi-family	3,928	—	3,928
Commercial business loans	3,529	903	4,432
Consumer	108	—	108
Total portfolio loans	$63,758	$ 903	$64,661

The Bank utilizes an internal asset classification system for multi-family, commercial and land portfolio loans as a means of reporting problem and potential problem loans. Under the risk rating system, the Bank classifies problem and potential problem loans as "Special Mention," "Substandard" or "Doubtful," which correspond to risk ratings five, six and seven, respectively. Portfolio loans that do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management's close attention are deemed to be Special Mention, or risk rated five. Substandard portfolio loans, or risk rated six, include those characterized by the distinct possibility the Bank may sustain some loss if the deficiencies are not corrected. Portfolio loans classified as Doubtful, or risk rated seven, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Generally, the Bank reviews all revolving credit relationships, regardless of amount, and any other loan relationship in excess of $250,000 on an annual basis. However, risk ratings are updated any time the facts and circumstances warrant.

The Bank evaluates residential and consumer portfolio loans based on whether the loans are performing or nonperforming, as well as other factors. Residential loans are charged down by the expected loss amount at the time they become nonperforming, which is generally 90 days past due. Consumer loans, including automobile, manufactured housing, unsecured, and other secured loans are charged-off, net of expected recovery, when the loan becomes significantly past due over a range of up to 180 days, depending on the type of loan.

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents the risk category of commercial, home equity and multi-family portfolio loans evaluated by internal asset classification as of September 30, 2018 and December 31, 2017:

	Pass	Special Mention	Substandard	Doubtful	Total
		(Dollars in Thousands)			
September 30, 2018					
Real estate loans:					
Commercial	$20,078	$1,078	$ 517	$—	$21,673
Multi-family	4,777	—	—	—	4,777
Total real estate loans	24,855	1,078	517	—	26,450
Commercial business loans	10,395	—	724	—	11,119
Total risk graded portfolio loans	$35,250	$1,078	$1,241	$—	$37,569
December 31, 2017					
Real estate loans:					
Commercial	$22,262	$ —	$ —	$—	$22,262
Multi-family	3,928	—	—	—	3,928
Total real estate loans	26,190	—	—	—	26,190
Commercial business loans	3,529	—	266	637	4,432
Total risk graded portfolio loans	$29,719	$ —	$ 266	$637	$30,622

When establishing the allowance, management categorizes loans into risk categories generally based on the nature of the collateral and basis of repayment. These risk categories and the relevant risk characteristics are as follows:

Real Estate Loans

- Due to the homogenous nature of one- to four-family residential loans, home equity loans, home equity lines of credit, these loans are not individually graded.
- Commercial real estate loans generally have greater credit risk as compared to one- to four-family residential real estate loans, as they usually involve larger loan balances secured by non-homogeneous or specific use properties. Repayment of these loans typically relies on the continued successful operation of a business or the generation of lease income by the property and is therefore more sensitive to adverse conditions in the economy and real estate market.
- Multi-family residential real estate loans generally involve a greater degree of credit risk than residential real estate loans, but are normally smaller individual loan balances than commercial real estate loans. Multi-family residential real estate loans involve a greater degree of credit risk as compared to residential real estate loans due to the reliance on the successful operation of the project. These loans are also more sensitive to adverse economic conditions.

NOTE 7. PORTFOLIO LOANS (continued)

Other Portfolio Loans

- Due to the homogenous nature of consumer loans, these loans are not individually graded.
- Commercial loans are secured by business assets or may be unsecured, and repayment is directly dependent on the continued successful operation of the borrower's business and ability to convert the assets to operating revenue. These possess greater risk than most other types of loans should the repayment capacity of the borrower not be adequate.

Activity in the allowance for the three months ended September 30, 2018 and 2017 was as follows:

	September 30,	
	2018	2017
Balance, beginning of quarter	$854	$696
Charge-offs:		
Loans secured by real estate:	—	—
One- to four-family	—	—
Commercial real estate	—	—
Home equity	—	—
Multi-family	—	—
Commercial business loans	93	—
Consumer loans	—	—
Total charge-offs	93	—
Recoveries:		
One- to four-family	—	—
Commercial real estate	—	—
Home equity	—	—
Multi-family	—	—
Commercial business loans	36	—
Consumer loans	—	—
Total recoveries	36	—
Net recoveries	(57)	—
Provision charged to operations	—	—
Balance, end of quarter	$797	$696

NOTE 7. PORTFOLIO LOANS (continued)

Activity in the allowance for the nine months ended September 30, 2018 and 2017 was as follows:

	September 30, 2018	September 30, 2017
Balance, beginning of year	$664	$665
Charge-offs:		
Loans secured by real estate:	—	—
One- to four-family	—	—
Commercial real estate	—	—
Home equity	—	—
Multi-family	—	—
Commercial business loans	93	13
Consumer loans	—	—
Total charge-offs	93	13
Recoveries:		
One- to four-family	—	—
Commercial real estate	—	—
Home equity	—	—
Multi-family	—	—
Commercial business loans	207	2
Consumer loans	—	—
Total Recoveries	207	2
Net recoveries (charge-offs)	114	(11)
Provision charged to operations	19	42
Balance, end of quarter	$797	$696

FIRSTCITY BANK OF COMMERCE
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2018
(unaudited)

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents ending balances for the allowance and portfolio loans based on the impairment method as of September 30, 2018:

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
	(Dollars in Thousands)		
Allowance for portfolio loan losses:			
Real estate loans:			
One- to four-family	$ —	$ 208	$ 208
Commercial	—	136	136
Home equity	—	22	22
Multi-family	—	32	32
Total real estate loans	—	398	398
Commercial business loans	212	147	359
Consumer loans	—	1	1
Unallocated	—	39	39
Total ending allowance for portfolio loan losses balance	$ 212	$ 585	$ 797
Portfolio loans:			
Real estate loans:			
One- to four-family	$ —	$26,578	$26,578
Commercial	517	21,152	21,669
Home equity	—	2,493	2,493
Multi-family	—	4,777	4,777
Total real estate loans	517	55,000	55,517
Commercial business loans	724	10,395	11,119
Consumer loans	—	146	146
Total ending portfolio loans balance	$1,241	$65,541	$66,782

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents ending balances for the allowance and portfolio loans based on the impairment method as of December 31, 2017:

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
	(Dollars in Thousands)		
Allowance for portfolio loan losses:			
Real estate loans:			
One- to four-family	$—	$ 223	$ 223
Commercial	—	133	133
Home equity	—	19	19
Multi-family	—	24	24
Total real estate loans	—	399	399
Commercial business loans	212	52	264
Consumer loans	—	1	1
Unallocated	—	—	—
Total ending allowance for portfolio loan losses balance	$212	$ 452	$ 664
Portfolio loans:			
Real estate loans:			
One- to four-family	$—	$31,473	$31,473
Commercial	—	22,262	22,262
Home equity	—	2,458	2,458
Multi-family	—	3,928	3,928
Total real estate loans	—	60,121	60,121
Commercial business loans	903	3,529	4,432
Consumer loans	—	108	108
Total ending portfolio loans balance	$903	$63,758	$64,661

Portfolio loans for which concessions have been granted as a result of the borrower’s financial difficulties are considered a TDR. These concessions, which in general are applied to all categories of portfolio loans, may include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, or a combination of these or other actions intended to maximize collection. The resulting TDR impairment is included in specific reserves.

Portfolio loans modified as TDRs with market rates of interest are classified as impaired portfolio loans. Once the TDR has performed for 12 months in accordance with the modified terms it is classified as a performing impaired loan. TDRs which do not perform in accordance with modified terms are reported as nonperforming portfolio loans. The policy for returning a nonperforming loan to accrual status is the same for any loan irrespective of whether the loan has been modified. As such, loans which are nonperforming prior to modification continue to be accounted for as nonperforming loans (and are reported as impaired nonperforming

NOTE 7. PORTFOLIO LOANS (continued)

loans) until they have demonstrated the ability to maintain sustained performance over a period of time, but no less than six months. Following this period such a modified loan is returned to accrual status and is classified as impaired and reported as a performing TDR. TDRs classified as impaired loans as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018	December 31, 2017
	(Dollars in Thousands)	
Real estate loans:		
One- to four-family	$ —	$—
Commercial	517	—
Home equity	—	—
Multi-family	—	—
Total real estate loans	517	—
Commercial business loans	552	903
Consumer loans	—	—
Total TDRs classified as impaired loans	$1,069	$903

All TDR's were considered performing as of September 30, 2018 and December 31, 2017, respectively. There were no commitments to lend additional amounts on TDRs as of September 30, 2018 and December 31, 2017.

The Bank is proactive in modifying residential, home equity and consumer loans in early stage delinquency because management believes modifying the loan prior to it becoming nonperforming results in the least cost to the Bank. The Bank also modifies commercial real estate and other large commercial loans as TDRs rather than pursuing other means of collection when it believes the borrower is committed to the successful repayment of the loan and the business operations are likely to support the modified loan terms.

TDR modifications totaled $517,000 during the nine months ended September 30, 2018. There were no TDR modifications during the nine months ended September 30, 2017.

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents information about impaired portfolio loans as of September 30, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
With no related allowance recorded:			
Real estate loans:			
One- to four-family	$—	$—	$—
Commercial	517	517	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	517	517	—
Commercial business loans	172	172	—
Consumer loans	—	—	—
Total with no related allowance recorded	$689	$689	$—
With an allowance recorded:			
Real estate loans:			
One- to four-family	$—	$—	$—
Commercial	—	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	—	—	—
Commercial business loans	552	877	212
Consumer loans	—	—	—
Total with an allowance recorded	$552	$877	$212

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents information about impaired portfolio loans as of December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
With no related allowance recorded:			
Real estate loans:			
One- to four-family	$—	$—	$—
Commercial	—	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	—	—	—
Commercial business loans	266	707	—
Consumer loans	—	—	—
Total with no related allowance recorded	$266	$707	$—
With an allowance recorded:			
Real estate loans:			
One- to four-family	$—	$—	$—
Commercial	—	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	—	—	—
Commercial business loans	637	938	212
Consumer loans	—	—	—
Total with an allowance recorded	$637	$938	$212

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents interest income on impaired portfolio loans by class of portfolio loans for the three months ended September 30, 2018 and 2017:

	Average Balance	Interest Income Recognized	Cash Basis Interest Income Recognized
	(Dollars in Thousands)		
September 30, 2018			
Real estate loans:			
One- to four-family	$ —	$—	$—
Commercial	517	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	517	—	—
Commercial business loans	729	6	6
Consumer loans	—	—	—
Total	$1,246	$ 6	$ 6
September 30, 2017			
Real estate loans:			
One- to four-family	$ —	$—	$—
Commercial	—	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	—	—	—
Commercial business loans	—	—	—
Consumer loans	812	—	—
Total	$ 812	$—	$—

NOTE 7. PORTFOLIO LOANS (continued)

The following table presents interest income on impaired portfolio loans by class of portfolio loans for the nine months ended September 30, 2018 and 2017:

	Average Balance	Interest Income Recognized	Cash Basis Interest Income Recognized
	(Dollars in Thousands)		
September 30, 2018			
Real estate loans:			
One- to four-family	$ —	$—	$—
Commercial	522	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	522	—	—
Commercial business loans	816	6	6
Consumer loans	—	—	—
Total	$1,338	$ 6	$ 6
September 30, 2017			
Real estate loans:			
One- to four-family	$ —	$—	$—
Commercial	—	—	—
Home equity	—	—	—
Multi-family	—	—	—
Total real estate loans	—	—	—
Commercial business loans	1,146	—	—
Consumer loans	—	—	—
Total	$1,146	$—	$—

NOTE 8. FEDERAL HOME LOAN BANK ADVANCES

As of September 30, 2018 and December 31, 2017, advances from the FHLB were as follows:

	September 30, 2018	December 31, 2017
	(Dollars in Thousands)	
Maturity on October 1, 2018, adjustable rate at 2.43% as of September 30, 2018	$ 200	$2,000
Maturity on March 20, 2020, fixed rate at 1.65%	1,250	1,875
Maturity on March 18, 2022, fixed rate at 1.96%	1,750	2,125
Total	$3,200	$6,000

NOTE 8. FEDERAL HOME LOAN BANK ADVANCES (continued)

The FHLB advances had a weighted-average maturity of 30 months and a weighted-average rate of 1.87% at September 30, 2018. The Bank had $38.0 million in portfolio loans posted as collateral for these advances as of September 30, 2018.

The Bank's remaining borrowing capacity with the FHLB was $20.9 million at September 30, 2018. The FHLB requires that the Bank collateralize the excess of the fair value of the FHLB advances over the book value with cash and investment securities. In the event the Bank prepays advances prior to maturity, it must do so at the fair value of such FHLB advances. The Bank has the ability to supplement its loan collateral with investment securities as needed to secure the FHLB borrowings or prepay advances to reduce the amount of collateral required to secure the debt. Unpledged investment securities available for collateral amounted to $12.7 million as of September 30, 2018.

NOTE 9. INCOME TAXES

Income tax expense for the nine months ending September 30, 2018 and 2017 was as follows:

	Nine months ending September 30,	
	2018	2017
	(Dollars in Thousands)	
Income (loss) before income tax expense (benefit)	$ (23)	$ 269
Effective tax rate	(34.8)%	(98.5)%
Income tax expense (benefit)	$ (8)	$ (265)

The Bank considers at each reporting period all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed to reduce its deferred tax assets to an amount that is more likely than not to be realized. A determination of the need for a valuation allowance for the deferred tax assets is dependent upon management's evaluation of both positive and negative evidence.

As of September 30, 2018, the Bank evaluated the expected realization of its federal and state deferred tax assets. Based on this evaluation it was concluded that no valuation allowance was required for the federal and state deferred tax assets. The Bank had no valuation allowance against its deferred tax assets as of September 30, 2018 or December 31, 2017.

NOTE 10. EARNINGS PER COMMON SHARE

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding for the period. The basic weighted average common shares and common stock equivalents are computed using the treasury stock method. The basic weighted average common shares and common stock equivalents outstanding for the period is adjusted for average unallocated employee stock ownership plan shares, average director's deferred compensation shares and average unearned restricted stock awards. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding for the period increased for the dilutive effect of unvested stock options and stock awards. The dilutive effect of the unvested stock options and stock awards is calculated under the treasury stock method utilizing the average market value of the Bank's stock for the period.

NOTE 10. EARNINGS PER COMMON SHARE (continued)

During the three and nine months ended September 30, 2018 and 2017, all of the Bank's stock options and stock awards were antidilutive and, therefore, were excluded from the calculation of diluted earnings per common share.

NOTE 11. STOCK-BASED COMPENSATION

The Bank has established a Directors' Stock Option Plan under which it may grant up to 164,308 shares to directors. The exercise price of the outstanding option is the greater of par value, book value or the market value per share on the date of grant. The options are exercisable starting during the year subsequent to the grant date at one-third per year and expire ten years from the grant date. At September 30, 2018, options for the purchase of 22,000 shares are outstanding under the plan, of which 10,000 expire in 2023 and 12,000 expire in 2024.

A summary of the status of the Bank's outstanding stock options as of September 30, 2018 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value Per Share
Outstanding as of December 31, 2017	59,400	$5.10
Granted	—	—
Exercised	—	—
Forfeited	37,400	5.11
Outstanding as of September 30, 2018	22,000	$5.08

A summary of the status of the Bank's outstanding stock options as of December 31, 2017 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value Per Share
Outstanding as of December 31, 2016	74,400	$5.09
Granted	—	—
Exercised	—	—
Forfeited	(15,000)	5.08
Outstanding as of December 31, 2017	59,400	$5.10

NOTE 12. REGULATORY SUPERVISION

The Bank's actual and required capital levels and ratios as of September 30, 2018 and December 31, 2017 were as follows:

	Actual		Required to be Well-Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
September 30, 2018				
Total capital (to risk weighted assets)	$9,711	14.80%	$6,563	10.00%
Common equity tier 1 capital (to risk weighted assets)	6,477	9.87%	4,266	6.50%
Tier 1 capital (to risk weighted assets)	8,914	13.58%	5,250	8.00%
Tier 1 capital (to adjusted total assets)	8,914	9.37%	4,756	5.00%
December 31, 2017				
Total capital (to risk weighted assets)	$9,592	15.27%	$6,281	10.00%
Common equity tier 1 capital (to risk weighted assets)	6,846	10.90%	4,083	6.50%
Tier 1 capital (to risk weighted assets)	8,928	14.21%	5,025	8.00%
Tier 1 capital (to adjusted total assets)	8,928	10.16%	4,392	5.00%

The Bank's capital classification under Prompt Corrective Action (PCA) defined levels as of September 30, 2018 was well-capitalized.

Beginning on January 1, 2016, as a result of the commencement of the phase-in of amended regulatory risk-based capital rules, the Bank must maintain a capital conservation buffer to avoid restrictions on capital distributions or discretionary bonus payments. The capital conservation buffer must consist solely of common equity tier 1 capital, but it applies to all three risk-weighted measurements (total risk based capital to risk-weighted assets ratio, common equity tier 1 capital to risk-weighted assets ratio, tier 1 capital to risk-weighted assets ratio) in addition to the minimum risk-weighted capital requirements. The capital conservation buffer required for 2016 was common equity equal to 0.625% of risk-weighted assets, the buffer required for 2017 is common equity equal to 1.25% of risk-weighted assets, and will increase by 0.625% per year until reaching 2.5% beginning January 1, 2019.

NOTE 13. SUBSEQUENT EVENTS

On October 12, 2018, our stockholders approved by written consent that we: (i) change our name to BankFlorida; (ii) increase our authorized shares of common stock to 50,000,000 shares; (iii) increased our authorized shares of preferred stock to 10,000,000 shares; (iv) change our par value per share from $5.00 to $1.00; (v) convert all of the 859,666 outstanding shares of Series A preferred stock into an equal number of shares of common stock; and (vi) combine our shares of outstanding common stock such that each outstanding share of common stock was combined and reclassified into 0.460 share of common stock.

Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of FirstCity Bank of Commerce

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of FirstCity Bank of Commerce, (the "Company") as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements of the Company, as of and for the years ended December 31, 2017 and 2016, were restated for the matter discussed in Note 2 to the financial statements.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the standards of the PCAOB and 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provided a reasonable basis for our opinion.

Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2018.
Clearwater, Florida
August 10, 2018

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2017 AND 2016
AS RESTATED

	2017	2016
ASSETS		
Assets:		
Cash and due from banks	$ 2,000,650	$ 3,657,992
Interest-bearing deposits in banks	549,210	3,495,602
Federal funds sold	2,167,452	1,296,647
Cash and cash equivalents	4,717,312	8,450,241
Securities available for sale	1,833,641	1,919,420
Securities held to maturity	13,838,895	6,887,030
Restricted equity securities	347,500	290,000
Loans held for sale	270,308	—
Loans receivable, net of allowance for loan losses of $663,997 in 2017 and $665,358 in 2016	64,701,089	67,579,216
Accrued interest receivable	286,721	262,119
Premises and equipment, net	143,385	214,803
Deferred income taxes	272,793	69,113
Cash surrender value of life insurance	1,007,730	975,137
Other assets	426,161	274,446
Total Assets	$87,845,535	$86,921,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing demand deposits	$10,637,815	$11,849,614
Interest-bearing demand deposits	34,752,992	33,355,272
Time deposits	27,469,247	28,799,155
Total deposits	72,860,054	74,004,041
Federal Home Loan Bank advances	6,000,000	5,000,000
Accrued interest payable	37,802	17,071
Accrued expenses and other liabilities	77,443	161,445
Total liabilities	78,975,299	79,182,557
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, $1 par value, 5,000,000 shares authorized; 859,666 in 2017 and 536,333 in 2016 shares issued and outstanding	859,666	536,333
Common stock, $5 par value, 5,000,000 shares authorized; 1,171,540 shares issued and outstanding	5,857,700	5,857,700
Additional paid-in capital	7,566,104	6,926,542
Accumulated deficit	(5,355,020)	(5,484,667)
Accumulated other comprehensive loss	(58,214)	(96,940)
Total stockholders' equity	8,870,236	7,738,968
Total Liabilities and Stockholders' Equity	$87,845,535	$86,921,525

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016
AS RESTATED

	2017	2016
Interest Income:		
Loans receivable and fees on loans	$3,150,976	$2,939,429
Investment securities	425,824	181,784
Other	77,136	29,793
Total interest income	3,653,936	3,151,006
Interest Expense:		
Deposits	708,263	506,901
Other	80,430	38,918
Total interest expense	788,693	545,819
Net interest income	2,865,243	2,605,187
Provision for Loan Losses	10,000	105,306
Net interest income after provision for loan losses	2,855,243	2,499,881
Noninterest Income:		
Other than temporary impairment losses	(43,311)	—
Other service charges and fees	120,890	169,888
Gain on sale of loans	127,368	23,797
Other income	40,520	43,013
Total noninterest income	245,467	236,698
Noninterest Expense:		
Salaries and employee benefits	1,536,571	1,212,462
Occupancy and equipment expense	257,491	241,387
Data processing	760,131	386,041
Regulatory assessments	68,207	73,009
Professional fees	217,933	127,488
Merger related expenses	—	57,239
Other expenses	290,564	285,252
Total noninterest expense	3,130,897	2,382,878
(Loss) Income Before Income Taxes	(30,187)	353,701
Income Tax Benefit	(235,652)	—
Net Income	205,465	353,701
Preferred Stock Dividends	(28,167)	(17,833)
Net Income Available to Common Shareholders	$ 177,298	$ 335,868
Net Income Per Common Share:		
Basic	$ 0.15	$ 0.29
Diluted	$ 0.15	$ 0.28

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016
AS RESTATED

	2017	2016
Net Income	$205,465	$353,701
Other Comprehensive Income (Loss):		
Unrealized gains (losses) arising during the period on securities available for sale, net of taxes of $4,193 in 2017 and $14,707 in 2016	6,951	(36,527)
Reclassification adjustment for other than temporary impairment, net of taxes of $16,298 in 2017 and $-0- in 2016	27,013	—
Accretion of unrealized gain/loss on securities transferred to held to-maturity, net of taxes of $8,651 in 2017 and $12,150 in 2016	14,338	32,290
Other comprehensive income (loss)	48,302	(4,237)
Total Comprehensive Income	$253,767	$349,464

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016
AS RESTATED

	Preferred Stock	Common Stock	Additional paid-in capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2016	$256,667	$5,857,700	$6,383,154	$(5,761,958)	(92,703)	$6,642,860
Net income				353,701		353,701
Other comprehensive loss					(4,237)	(4,237)
Issuance of preferred stock	279,666		541,333			820,999
Dividends, $0.05 per common share				(76,410)		(76,410)
Stock-based compensation			2,055			2,055
Balance, December 31, 2016	536,333	5,857,700	6,926,542	(5,484,667)	(96,940)	7,738,968
Net income				205,465		205,465
Other comprehensive income					48,302	48,302
Reclassification for change in tax rate on unrealized losses on securities				9,576	(9,576)	—
Issuance of preferred stock	323,333		639,169			962,502
Dividends, $0.05 per common share				(85,394)		(85,394)
Stock-based compensation			393			393
Balance, December 31, 2017	$859,666	$5,857,700	$7,566,104	$(5,355,020)	$(58,214)	$8,870,236

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

FIRSTCITY BANK OF COMMERCE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
AS RESTATED

	2017	2016
Cash Flows From Operating Activities:		
Net income	$ 205,465	$ 353,701
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	71,151	72,466
Provision for loan losses	10,000	105,306
Stock-based compensation	393	2,055
Deferred income tax expense	110,547	121,985
Change in valuation allowance	(343,369)	(121,985)
Other than temporary impairment on securities	43,311	—
Net amortization on available-for-sale securities	728	1,033
Loss on disposal of furniture and equipment	267	—
Net amortization on held-to-maturity securities	25,833	34,542
Change in assets and liabilities:		
Loans held for sale	(270,308)	—
Accrued interest receivable	(24,602)	(82,744)
Cash surrender value of life insurance	(32,593)	(34,095)
Other assets	(151,715)	(55,218)
Accrued interest payable and other liabilities	(63,271)	(45,468)
Net cash (used in) provided by operating activities	(418,163)	351,578
Cash Flows From Investing Activities:		
Principal reductions received on available-for-sale securities	109,281	126,047
Proceeds on sales, maturities and calls of held-to-maturity securities	—	1,000,000
Purchases of held-to-maturity securities	(7,840,250)	(2,878,750)
Principal reductions received on held-to-maturity securities	872,455	839,379
Increase in restricted equity securities	(57,500)	(131,600)
Net decrease (increase) in loans	2,868,127	(14,826,078)
Purchases of premises and equipment	—	(52,196)
Net cash used in investing activities	(4,047,887)	(15,923,198)
Cash Flows From Financing Activities:		
Net increase in demand and savings deposits	185,921	6,750,966
Net (decrease) increase in time deposits	(1,329,908)	7,923,815
Net increase in Federal Home Loan Bank advances	1,000,000	2,750,000
Issuance of preferred stock	962,502	820,999
Dividends paid	(85,394)	(76,410)
Net cash provided by financing activities	733,121	18,169,370
Net Change in Cash and Cash Equivalents	(3,732,929)	2,597,750
Cash and Cash Equivalents, Beginning of Year	8,450,241	5,852,491
Cash and Cash Equivalents, End of Year	$ 4,717,312	$ 8,450,241
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 767,962	$ 537,221
Income taxes paid	$ 160,700	$ —

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

FIRSTCITY BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business:

FirstCity Bank of Commerce (the "Bank") is a state-chartered bank organized in 2007 under the laws of the State of Florida. The Bank's financial services consist of deposit and lending activities provided through its main branch location in Palm Beach County, Florida. The Bank is regulated by various Federal and State agencies and is subject to periodic examinations by those regulatory authorities.

Basis of Presentation:

The accounting and reporting policies of the Bank follow generally accepted accounting principles and general practices within the financial services industry. The following is a description of the significant accounting and reporting policies the Bank follows in preparing and presenting its financial statements.

Accounting Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. These estimates include the allowance for loan losses, fair value of investment securities, and the valuation of any deferred tax assets. Actual results could differ from those estimates.

While management uses available information to reserve for losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change. However, the amount of the change that is reasonably possible cannot presently be estimated.

Cash Equivalents:

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and interest-bearing deposits in banks.

Securities:

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and are recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Equity Securities:

Restricted equity securities consist of stock in the Federal Home Loan Bank of Atlanta, (“FHLB”), which is held in accordance with certain member requirements and is stated at cost, which approximates market value.

Loans Held For Sale:

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value. Market value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the statements of income.

Loans Receivable:

The Bank grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans. The ability of the Bank’s debtors to honor their contracts is dependent upon real estate and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued):

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

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

Troubled Debt Restructures:

Loans classified as troubled debt restructured ("TDR") loans are considered impaired. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

A TDR is a restructuring of a loan in which a concession is granted to a borrower experiencing financial difficulty. A loan is accounted for as a TDR if the Bank, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise grant. A TDR typically involves a modification of terms such as a reduction of the interest rate below the current market rate for a loan with similar risk characteristics or the waiving of certain financial loan covenants without corresponding offsetting compensation or additional support. The Bank measures the impairment loss of a TDR using the methodology for individually impaired loans.

Other Real Estate Owned:

Other Real Estate Owned acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less anticipated cost to sell at the date of foreclosure, establishing a new cost basis. Any write down at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent write downs are charged to other expense. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of carrying amount or fair value, less cost to sell. Costs relating to improvement of the property are capitalized while holding costs of the property are charged to expense in the period incurred.

Premises and Equipment:

Leasehold improvements, furniture and equipment are stated at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets, or the lessor of the remaining lease term or useful life of leasehold improvements.

Advertising:

Advertising costs are expensed as incurred.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation:

The Bank records stock-based compensation at fair value and expenses the fair value of stock options granted. The Bank recognizes the effects of stock-based compensation in salaries and employee benefits in the accompanying statements of income on a straight-line basis over the vesting period. The Bank accounts for forfeitures as they occur.

Income Taxes:

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between book and tax basis of the various asset and liabilities in the statements of financial condition and gives recognition to changes in tax rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the expected amount more likely than not to be realized. Realization of deferred tax assets is dependent upon the level of historical income, prudent and feasible tax planning strategies, reversal of deferred tax liabilities and estimates of future taxable income.

Uncertain Tax Positions:

The Bank evaluates uncertain tax positions at the end of each reporting period. The Bank may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from any such position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Any interest and/or penalties related to income taxes are reported as a component of income tax expense.

Comprehensive Income:

Annual comprehensive income reflects the change in the Bank’s equity during the year arising from transactions and events other than investment by and distributions to shareholders. The only components of other comprehensive income consist of realized and unrealized gains and losses related to investment securities.

Net Income per Common Share:

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year including any potential dilutive effects of common stock equivalents, such as options and warrants.

Credit Related Financial Instruments:

In the ordinary course of business, the Bank has entered into commitments to extend credit and letters of credit. Such financial instruments are recorded when they are funded.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events:

Management has evaluated subsequent events through the date which the financial statements were available for issue.

Recent Accounting Pronouncements:

The Financial Accounting Standards Board (the "FASB") has issued Accounting Standards Update ("ASU") 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. FASB financial reporting guidance requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date inclusive of the income tax effects of items in accumulated other comprehensive income. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for standard tax effects resulting from the Act. The amendment better reflects the appropriate tax rate. ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted for public entities for reporting periods for which financial statements have not yet been issued. The Bank early adopted this standard effective December 31, 2017 and reclassified $10 thousand that was recorded to income tax expense for 2017, due to re-measuring the federal deferred taxes on the accumulated other comprehensive income components related to available for sale securities from 35% to 21%.

The FASB has issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting.* This ASU clarifies when changes to the term or conditions of a share-based payment award must be accounted for as a modification. Under this ASU, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: 1) The fair value; 2) the award's vesting conditions; and 3) the award's classification as an equity or liability instrument. ASU No. 2017-09 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and is not expected to have a material impact on the Bank's Financial Statements.

The FASB has issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Bank will evaluate the guidance in this update but does not expect it to have a significant impact on its financial position or result of operations.

The FASB has issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326).* The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the guidance in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses is based on relevant information about past events,

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued):

including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The guidance in this update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Bank is currently evaluating this guidance to determine the impact on its Financial Statements.

The FASB has issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718).* The purpose of this guidance is to simplify the accounting for share-based payment transactions, including the income tax consequences of these transactions. Under the provisions of the update, the income tax consequences of excess tax benefits and deficiencies should be recognized in income tax expense in the reporting period in which the awards vest. Currently, excess tax benefits and deficiencies impact stockholders' equity directly to the extent there is a cumulative excess tax benefit. In the event that a tax deficiency has occurred during the reporting period and a cumulative tax benefit does not exist, the tax deficiency is recognized in income tax expense under current GAAP. The update also provides that entities may continue to estimate forfeitures in accounting for stock based compensation or recognize them as they occur. This update became effective for interim and annual periods beginning after December 15, 2016. The Bank adopted this standard effective January 1, 2017 and elected to apply this adoption prospectively. The impact of guidance in this update was not material to the Bank's financial statements.

The FASB has issued ASU 2016-02, *Leases (Topic 842).* The new guidance requires lessees to recognize lease assets and lease liabilities related to certain operating leases on their balance sheet and disclose key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Bank is currently evaluating this guidance to determine the impact on its consolidated financial statements. The Bank leases certain properties under operating leases that will result in recognition on the Bank's Statement of Financial Condition. At December 31, 2017, the Bank had contractual operating lease commitments of approximately $191,000, before considering any renewal options.

The FASB has issued ASU No. 2016-01, *Financial Instruments—Recognition and Measurement of Financial Assets and Liabilities*. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The guidance allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The guidance also: requires public companies to use exit prices to measure the fair value of financial instruments for disclosure purposes; 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 eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, the guidance requires that for liabilities measured at fair value under the fair value option, changes in fair value due to changes in instrument-specific credit risk be presented in other comprehensive income. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Adoption of ASU No. 2016-01 is not expected to have a material impact on the Bank's Financial Statements.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to 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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued):

for those goods or services. The guidance in this update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. As allowed by this ASU the Bank is permitted to adopt using the full retrospective transition method for all periods presented, or modified retrospective method where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. The Bank's revenue stream within the scope of ASU No. 2014-09 is primarily from service charges on deposit accounts. The Bank is expected to use a modified retrospective approach to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption. The impact of guidance in this update, including method of implementation, is not expected to have a material impact on the Bank's Financial Statements.

NOTE 2—RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Bank's audited financial statements for the years ended December 31, 2017 and 2016, several misstatements were identified which were corrected by management. These misstatements resulted in significant changes to the Bank's Statements of Financial Condition and Statements of Income that are described more fully in the following tables.

Accordingly, the December 31, 2017 and 2016 financial statements have been restated to account for these changes. The effect on the financial statements is as follows:

	2017			
	As originally Reported	Change		As Restated
Statements of Financial Condition				
Assets				
Securities held to maturity	$13,851,981	$ (13,086)	a	$13,838,895
Loans receivable, net of allowance for loan losses	64,644,089	57,000	b	64,701,089
Deferred income taxes	221,263	51,530	c	272,793
Other assets	736,824	(310,663)	d, f	426,161
Total assets	88,060,754	(215,219)		87,845,535
Total Liabilities and Stockholders' Equity				
Accumulated deficit	$ (5,129,398)	$(225,622)		$ (5,355,020)
Accumulated other comprehensive loss	(68,618)	10,404	a	(58,214)
Total stockholders equity	9,085,454	(215,218)		8,870,236
Beginning accumulated deficit	(5,520,895)	36,228	e	(5,484,667)

NOTE 2—RESTATEMENT OF FINANCIAL STATEMENTS (Continued)

	2017			
	As originally Reported	Change		As Restated
Statements of Income				
Provision for loan losses	$ 67,000	$ (57,000)	b	$ 10,000
Other than temporary impairment losses	—	(43,311)	a	(43,311)
Data processing expense	427,421	332,710	d	760,131
Professional fees	181,705	36,228	e	217,933
Other expenses	290,581	(17)	h	290,564
Income before income taxes	$ 325,045	$(355,232)	a, b, d, e, h	$ (30,187)
Income tax benefit	(151,846)	(83,806)	f	(235,652)
Net income	$ 476,891	$(271,426)		$ 205,465
Other comprehensive income	$ 28,322	$ 19,980	g	$ 48,302
Total comprehensive income	$ 505,213	$(251,446)		$ 253,767
Earnings per share, basic and diluted	Not Reported			$ 0.15

a. To record other than temporary impairment losses
b. To adjust the allowance for loan losses to reverse unsupported unallocated reserves
c. To adjust deferred income taxes for tax effect of adjustments
d. To write off capitalized conversion costs
e. To adjust legal expense for reversed expenses recorded during 2017 which pertained to 2016
f. To record additional income tax benefit for the effect of adjustments
g. To adjust deferred tax asset on unrealized losses and to reclass effect of the tax rate change from other comprehensive income to retained earnings.
h. To adjust for the impact of immaterial rounding differences.

NOTE 2—RESTATEMENT OF FINANCIAL STATEMENTS (Continued)

	2016			
	As originally Reported	Change		As Restated
Statements of Financial Condition				
Liabilities				
Accrued expenses and other liabilities	$ 197,673	$ (36,228)	a	$ 161,445
Total liabilities	79,218,785	(36,228)		79,182,557
Liabilities and Stockholders Equity				
Accumulated deficit	$ (5,520,895)	$ 36,228		$ (5,484,667)
Total stockholders equity	7,702,740	36,228		7,738,968
Beginning accumulated deficit	(5,645,764)	(116,194)	b	(5,761,958)
Statements of Income				
Provision for loan losses	$ 221,500	$(116,194)	b	$ 105,306
Professional fees	163,716	(36,228)		127,488
Income before taxes	201,279	152,422		353,701
Net income	$ 201,279	$ 152,422		$ 353,701
Earnings per share, basic	Not Reported			$ 0.29
Earnings per share, diluted	Not Reported			$ 0.28

a. To adjust legal expense to reverse overaccrual.
b. To record loan loss provision in 2015 for a charge-off that was recorded during 2016 but pertained to 2015.

In addition, certain financial statement footnotes were restated to reflect additional changes. The investment footnote was restated to revise the fair value of certain held-to-maturity securities and the scheduled maturities of available-for-sale and held-to-maturity securities, in addition to the inclusion of other than temporary impairment losses recorded as of December 31, 2017 as noted previously. The loan and the allowance for loan losses credit quality footnote was restated to reclassify a loan from pass to special mention as of December 31, 2017. The effect on the financial statement footnotes is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity:				
December 31, 2017—				
Mortgage-backed-securities—As Originally Reported	$13,851,981	$ 50,920	$(42,309)	$13,860,592
Change	(13,086)	305,821	3,241	295,976
Mortgage-backed-securities—As Restated	$13,838,895	$356,741	$(39,068)	$14,156,568

NOTE 2—RESTATEMENT OF FINANCIAL STATEMENTS (Continued)

	Amortized Cost			Fair Value		
	As Originally Reported	Change	As Restated	As Originally Reported	Change	As Restated
Available-for-Sale						
December 31, 2017—						
Due in one year	$ —	$ —	$ —	$ —	$ —	$ —
Due from one to five years	391,727	(391,727)	—	380,379	(380,379)	—
Due from five to ten years	1,499,327	(1,107,600)	391,727	1,453,262	(1,072,883)	380,379
Due in greater than ten years	—	1,469,102	1,469,102	—	1,453,262	1,453,262
Totals	$ 1,891,054		$ 1,860,829	$ 1,833,641		$ 1,833,641
Held-to-Maturity						
December 31, 2017—						
Due in one year	$ —		$ —	$ —		$ —
Due from one to five years	5,004,155	(5,004,155)	—	4,987,619	(4,987,619)	—
Due from five to ten years	8,847,826	1,718,286	10,566,112	8,872,973	2,022,406	10,895,379
Due in greater than ten years	—	3,272,783	3,272,783	—	3,261,189	3,261,189
Totals	$13,851,981		$13,838,895	$13,860,592		$14,156,568

Credit Quality:

	Pass	Watch	Special Mention	Substandard	Doubtful
December 31, 2017—					
Loan Category					
Commercial—As Originally Reported	$ 8,741,403	$—	$ —	$265,913	$637,068
Change	(171,980)	—	171,980	—	—
Commercial—As Restated	$ 8,569,423	$—	$171,980	$265,913	$637,068
Totals—As Originally Reported	$64,118,929	$—	$238,467	$265,913	$637,068
Change	(171,980)	—	171,980	—	—
Totals—As Restated	$63,946,949	$—	$410,447	$265,913	$637,068

NOTE 3—INVESTMENT SECURITIES

Investment securities have been classified in the statements of financial condition according to management's intent. The carrying amount of securities and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-For-Sale:				
December 31, 2017—				
Mortgage-backed securities	$ 391,727	$ -0-	$(11,348)	$ 380,379
Corporate bonds	1,469,102	-0-	(15,840)	1,453,262
	$ 1,860,829	$ -0-	$(27,188)	$ 1,833,641
December 31, 2016—				
Mortgage-backed securities	$ 501,862	$ -0-	$(16,197)	$ 485,665
Corporate bonds	1,499,201	-0-	(65,446)	1,433,755
	$ 2,001,063	$ -0-	$(81,643)	$ 1,919,420
Held-To-Maturity:				
December 31, 2017—				
Mortgage-backed securities	$13,838,895	$356,741	$(39,068)	$14,156,568
December 31, 2016—				
Mortgage-backed securities	$ 6,887,030	$ 39,250	$(43,484)	$ 6,882,796

During 2014, the Bank transferred approximately $1.6 million of securities classified as available for sale to securities classified as held to maturity. The securities were transferred at fair value, which became the cost basis for the securities held-to-maturity. The net unrealized holding loss is being amortized over the remaining life of the securities as a yield adjustment. At December 31, 2017 and 2016, the net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying statements of financial condition amounted to approximately $51,000 and $74,000, respectively, before tax benefits of approximately $12,800 in 2017 and $27,800 in 2016.

The Bank had no sales of securities in 2017 or 2016.

The scheduled maturities of securities based on the estimated weighted-average lives of the underlying collateral for available-for-sale and held-to-maturity securities as of December 31, 2017, were as follows:

	Available-For-Sale		Held-To-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year	$ -0-	$ -0-	$ -0-	$ -0-
Due from one to five years	-0-	-0-	-0-	-0-
Due from five to ten years	391,727	380,379	10,566,112	10,895,379
Due in greater than ten years	1,469,102	1,453,262	3,272,783	3,261,189
	$1,860,829	$1,833,641	$13,838,895	$14,156,568

The carrying value of collateralized mortgage obligations included in the balances of mortgage-backed securities as of December 31, 2017 and 2016, amounted to approximately $11,957,000 and $4,635,000, respectively. The effective yield on these securities was approximately 4.55% in 2017 and 2016, respectively.

NOTE 3—INVESTMENT SECURITIES (Continued)

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the estimated weighted-average lives of the underlying collateral. The mortgage-backed securities may mature earlier than their estimated weighted-average lives because of principal prepayments.

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-For-Sale:				
December 31, 2017—				
Mortgage-backed securities	$ -0-	$ -0-	$(11,348)	$ 380,379
Corporate bonds	-0-	-0-	(15,840)	1,453,262
	$ -0-	$ -0-	$(27,188)	$1,833,641
December 31, 2016—				
Mortgage-backed securities	$(16,197)	$ 485,665	$ -0-	$ -0-
Corporate bonds	(5,617)	243,584	(59,829)	1,190,171
	$(21,814)	$ 729,249	$(59,829)	$1,190,171
Held-To-Maturity:				
December 31, 2017—				
Mortgage-backed securities	$ (16)	$5,199,624	$(39,052)	$2,278,967
December 31, 2016—				
Mortgage-backed securities	$(43,484)	$3,165,636	$ -0-	$ -0-

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2017, there were four securities available for sale and three securities held to maturity that were in a continuous loss position greater than twelve months. At December 31, 2016, there were two securities available for sale and no securities held to maturity that were in a continuous loss position greater than twelve months.

Subsequent to December 31, 2017, the Bank sold certain corporate and mortgage-backed securities which were at an unrealized loss position as of December 31, 2017. The sale consisted of approximately $1,205,000 in available-for-sale securities and $709,000 in held-to-maturity securities recognizing a loss of $92,544 from the sale. The Bank recorded other than temporary impairment charges of $30,225 on corporate bonds and $13,086 on mortgage-backed securities, which consists of the unrealized losses on these securities as of December 31, 2017.

NOTE 3—INVESTMENT SECURITIES (Continued)

All of the remaining securities that are temporarily impaired are impaired due to declines in fair values resulting from changes in interest rates since the time they were purchased. The Bank expects these securities will be repaid in full, with no losses realized. As management has the intent to hold the remaining debt securities for the foreseeable future, and do not intend nor believe it is more likely than not that the Bank will be required to sell the securities before anticipated recovery, management considered the remaining impairments to be temporary.

The subsequent sale of the held-to-maturity securities stated above conflicted with the Bank's original intent to hold the securities until maturity. As a result, subsequent to December 31, 2017, the remaining held-to-maturity portfolio was transferred to available-for-sale.

NOTE 4—LOANS AND THE ALLOWANCE FOR LOAN LOSSES

The components of loans in the statements of financial condition were as follows:

	2017	2016
Real estate—		
Commercial	$21,424,305	$23,242,376
Residential	34,084,168	30,787,841
Commercial	9,644,384	11,521,997
Consumer	107,520	2,663,291
	65,260,377	68,215,505
Deferred costs	104,709	29,069
Allowance for loan losses	(663,997)	(665,358)
	$64,701,089	$67,579,216

Loan premiums, which are included in the loan amounts above, totaled approximately $600,000 and $725,000 at December 31, 2017 and 2016, respectively.

The Bank grants commercial real estate, residential real estate, commercial, and consumer loans in the State of Florida with primary concentration being in Palm Beach County, Florida. Although the Bank's loan portfolio is diversified, a significant portion of its loans are secured by real estate. The Bank has divided the loan portfolio into four portfolio segments, each with different risk characteristics and methodologies for assessing risk. The portfolio segments identified by the Bank are commercial real estate loans, residential real estate, commercial loans, and consumer loans.

Real Estate—Commercial. Commercial real estate loans consist of loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. These loans may be secured by first liens on office buildings, apartments, farms, retail and mixed-use properties, churches, warehouses and restaurants located primarily within the Bank's market area. The Bank's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. Commercial real estate loans are larger than residential loans and involve greater credit risk. The repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions also affect the repayment ability to a greater extent than residential real estate loans.

Real Estate—Residential. The Bank originates residential real estate loans for the purchase or refinancing of a mortgage or to provide home equity lines of credit or construction loans for homeowners. These loans are

NOTE 4—LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

collateralized by owner-occupied properties located primarily in the Bank's market area. During 2016, the Bank purchased approximately $7 million in residential real estate loans with an original premium amounting to approximately $176,000.

Commercial. These loans consist of business loans to small and medium sized companies in the Bank's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Substantially all of the Bank's commercial loans are secured loans, along with a small amount of unsecured loans. The Bank's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment. Commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Bank seeks to minimize these risks through its underwriting standards.

Consumer. Consumer loans mainly consist of secured consumer loans. The Bank's consumer loans may be uncollateralized and rely on the borrower's income for repayment.

Allowance for Loan Losses:

The following schedule presents a rollforward of the allowance for loan losses as of December 31:

	2017	2016
Balance, beginning of year	$665,358	$560,052
Charge-offs:		
Real estate—		
Commercial	-0-	-0-
Residential	(13,268)	-0-
Commercial	-0-	-0-
Consumer	-0-	-0-
Total charge-offs	(13,268)	—
Recoveries:		
Real estate—		
Commercial	-0-	-0-
Residential	1,907	-0-
Commercial	-0-	-0-
Consumer	-0-	-0-
Total recoveries	1,907	-0-
Net charge-offs	(11,361)	—
Provision charged to operations	10,000	105,306
Balance, end of year	$663,997	$665,358

NOTE 4—LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses (Continued):

The following tables present the allocation of loan loss reserves and the recorded investment in loans based on impairment method as of December 31, 2017 and 2016:

	Real Estate—Commercial	Real Estate—Residential	Commercial	Consumer	Total
December 31, 2017—					
Reserves allocated for loans:					
Individually evaluated for impairment	$ -0-	$ -0-	$ 212,385	$ -0-	$ 212,385
Collectively evaluated for impairment	156,395	241,983	52,581	653	451,612
	$ 156,395	$ 241,983	$ 264,966	$ 653	$ 663,997
December 31, 2017—					
Loans:					
Individually evaluated for impairment	$ -0-	$ -0-	$ 902,981	$ -0-	$ 902,981
Collectively evaluated for impairment	21,424,305	34,084,168	8,741,403	107,520	64,357,396
	$21,424,305	$34,084,168	$9,644,384	$107,520	$65,260,377

	Real Estate—Commercial	Real Estate—Residential	Commercial	Consumer	Total
December 31, 2016—					
Reserves allocated for loans:					
Individually evaluated for impairment	$ 10,374	$ -0-	$ -0-	$ -0-	$ 10,374
Collectively evaluated for impairment	242,470	318,462	93,727	325	654,984
	$ 252,844	$ 318,462	$ 93,727	$ 325	$ 665,358
December 31, 2016—					
Loans:					
Individually evaluated for impairment	$ 41,496	$ -0-	$ 1,531,804	$ -0-	$ 1,573,300
Collectively evaluated for impairment	23,200,880	30,787,841	9,990,193	2,663,291	66,642,205
	$23,242,376	$30,787,841	$11,521,997	$2,663,291	$68,215,505

NOTE 4—LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans:

The following tables present information on impaired loans disaggregated by class as of December 31, 2017 and 2016:

	With no Related Allowance Recorded		With an Allowance Recorded		
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2017—					
Real estate—commercial	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Real estate—residential	-0-	-0-	-0-	-0-	-0-
Commercial	265,913	707,151	637,068	937,685	212,385
Consumer	-0-	-0-	-0-	-0-	-0-
	$ 265,913	$ 707,151	$637,068	$937,685	$212,385
December 31, 2016—					
Real estate—commercial	$ -0-	$ -0-	$ 41,496	$ 41,496	$ 10,374
Real estate—residential	-0-	-0-	-0-	-0-	-0-
Commercial	1,531,804	2,154,697	-0-	-0-	-0-
Consumer	-0-	-0-	-0-	-0-	-0-
	$1,531,804	$2,154,697	$ 41,496	$ 41,496	$ 10,374

The following table presents the average recorded investment and interest recognized on impaired loans for the years ended December 31, 2017 and 2016:

	2017		2016	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Real estate—commercial	$ -0-	$ -0-	$ 41,659	$ 901
Real estate—residential	-0-	-0-	-0-	-0-
Commercial	1,026,559	21,257	1,815,660	97,299
Consumer	-0-	-0-	-0-	-0-
	$1,026,559	$21,257	$1,857,319	$98,200

During 2017, there were no new restructured loans. During 2016, the Bank restructured a commercial loan with an outstanding balance of $220,175 allowing for a six month interest only period that converted to fixed monthly payments for the remaining term of the loan.

There were no troubled debt restructurings occurring in 2017 or 2016 that subsequently defaulted in the period in which the restructuring occurred.

Credit Quality:

Internal risk-rating grades are assigned to loans by lending, credit administration or loan review personnel, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Management analyzes the resulting ratings, as well as other external statistics and factors such as

NOTE 4—LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality (Continued):

delinquency, to track the migration performance of the portfolio balances. This analysis is performed at least annually. The Bank uses the following definitions for its risk ratings:

Pass. Loans properly approved, documented, collateralized, and performing which do not reflect an abnormal credit risk.

Watch. These loans display negative performance trends or are of sufficient risk to cause concern. The "Watch" grade should be regarded as a transition category.

Special Mention. These loans exhibit some signs of "Watch", but to a greater magnitude. These credits constitute an undue and unwarranted credit risk, but not to a point of justifying a classification of "Substandard". They have weaknesses that, if not checked or corrected, weaken the asset or inadequately protect the Bank.

Substandard. These loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. These loans have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

The tables below sets forth credit exposure for the loan portfolio disaggregated by class based on internally assigned risk ratings at December 31, 2017 and 2016:

Credit Exposure Based on Risk Ratings:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2017—						
Loan Category						
Real estate—commercial	$21,424,305	$-0-	$ -0-	$ -0-	$ -0-	$21,424,305
Real estate—residential	33,845,701	-0-	238,467	-0-	-0-	34,084,168
Commercial	8,569,423	-0-	171,980	265,913	637,068	9,644,384
Consumer	107,520	-0-	-0-	-0-	-0-	107,520
	$63,946,949	$-0-	$410,447	$265,913	$637,068	$65,260,377
December 31, 2016—						
Loan Category						
Real estate—commercial	$23,200,880	$-0-	$ -0-	$ 41,496	$ -0-	$23,242,376
Real estate—residential	30,787,841	-0-	-0-	-0-	-0-	30,787,841
Commercial	9,990,193	-0-	-0-	790,893	740,911	11,521,997
Consumer	2,663,291	-0-	-0-	-0-	-0-	2,663,291
	$66,642,205	$-0-	$ -0-	$832,389	$740,911	$68,215,505

NOTE 4—LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due and Nonaccrual Loans:

The following tables presents an aging of past due loans disaggregated by class at December 31, 2017 and 2016:

	30-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current Loans	Total Loans	Loans > 90 Days and Accruing
December 31, 2017—						
Real estate—commercial	$ -0-	$ -0-	$ -0-	$21,424,305	$21,424,305	$ -0-
Real estate—residential	1,734,649	816,881	2,551,530	31,532,638	34,084,168	816,881
Commercial	1,110,857	769,603	1,880,460	7,763,924	9,644,384	-0-
Consumer	-0-	-0-	-0-	107,520	107,520	-0-
	$2,845,506	$1,586,484	$4,431,990	$60,828,387	$65,260,377	$816,881
December 31, 2016—						
Real estate—commercial	$ -0-	$ 41,496	$ 41,496	$23,200,880	$23,242,376	$ -0-
Real estate—residential	-0-	-0-	-0-	30,787,841	30,787,841	-0-
Commercial	1,868,846	297,012	2,165,858	9,356,139	11,521,997	-0-
Consumer	-0-	-0-	-0-	2,663,291	2,663,291	-0-
	$1,868,846	$ 338,508	$2,207,354	$66,008,151	$68,215,505	$ -0-

The following table presents the composition of nonaccrual loans disaggregated by class at December 31:

	2017	2016
Real estate—commercial	$ -0-	$ 41,496
Real estate—residential	-0-	-0-
Commercial	902,981	1,037,419
Consumer	-0-	-0-
	$902,981	$1,078,915

NOTE 5—PREMISES AND EQUIPMENT

Components of premises and equipment included in the statements of financial condition were as follows:

	2017	2016
Leasehold improvements	$ 102,450	$ 93,945
Equipment, furniture, and fixtures	485,000	620,455
	587,450	714,400
Less: Accumulated depreciation and amortization	(444,065)	(499,597)
	$ 143,385	$ 214,803

Depreciation and amortization expense charged to operations amounted to $71,151 in 2017 and $72,466 in 2016.

NOTE 5—PREMISES AND EQUIPMENT (Continued)

Leases:

In 2013, the Bank leased office space for a full service branch and operations office under an operating lease expiring in February 2019. In addition, the Bank has various leases for office equipment expiring in 2021. These leases require payment of taxes, insurance and maintenance costs in addition to rental payments.

Future minimum lease payments under these agreements are summarized as follows:

2018	$156,400
2019	29,500
2020	4,000
2021	1,000
	$190,900

Rental expense relating to operating leases amounted to approximately $171,000 in 2017 and $161,000 in 2016.

NOTE 6—TIME DEPOSITS

The aggregate amounts of time deposits at December 31, each with a minimum denomination of $250,000, were approximately $17,605,000 in 2017 and $18,988,000 in 2016.

At December 31, 2017, the scheduled maturities of time deposits were as follows:

2018	$ 9,984,555
2019	12,625,595
2020	4,296,439
2021	305,688
2022	256,970
	$27,469,247

NOTE 7—FEDERAL HOME LOAN BANK ADVANCES

FHLB advances outstanding at December 31, 2017 and 2016 amounted to $6,000,000 and $5,000,000, respectively. The fixed rate advances are collateralized by FHLB stock and qualifying loans pledged as collateral under a blanket floating lien agreement. Total loans pledged as collateral towards FHLB borrowings was approximately $35.6 million and $35.0 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017, the Bank had a remaining available line with the FHLB of approximately $16.1 million based on the availability of qualifying collateral.

NOTE 7—FEDERAL HOME LOAN BANK ADVANCES (Continued)

A summary of FHLB advances by maturity and interest rate at December 31, 2017 and 2016 are summarized as follows:

Maturity	Interest Rate	2017	2016
2017	0.80%	$ -0-	$5,000,000
2018	1.43%	2,000,000	-0-
2020	1.65%	1,875,000	-0-
2022	1.96%	2,125,000	-0-
		$6,000,000	$5,000,000

NOTE 8—INCOME TAXES

Income tax provision (benefit) consists of the following:

	2017	2016
Current tax provision (benefit):		
Federal	$ (2,830)	$ -0-
State	-0-	-0-
	(2,830)	-0-
Deferred expense:		
Federal	113,771	104,479
State	(3,224)	17,506
	110,547	121,985
Change in valuation allowance	(343,369)	(121,985)
Income tax benefit	$(235,652)	$ -0-

The difference between the actual income tax benefit and the amount computed by applying the statutory federal income tax rate to income before taxes is as follows:

	2017	2016
Tax expense based on statutory rate	$ (10,264)	$ 120,258
State taxes, net of federal benefit	(2,128)	11,554
Tax-exempt income	(11,082)	(11,592)
Change in valuation allowance	(343,369)	(121,985)
Change in federal tax rate	132,220	-0-
Other, net	(1,029)	1,765
Income tax benefit	$(235,652)	$ -0-

During 2017, the Bank reversed the previously recorded valuation allowance of $343,369 on deferred tax assets due to the expectations of future taxable income. In December 2017, the Congress passed the Tax Cuts and Jobs Act that resulted in a decrease in the federal corporate income tax rate from 34% to 21%. This resulted in a reduction in the Bank's deferred tax assets of $132,220.

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NOTE 8—INCOME TAXES (Continued)

The tax effects of each type of significant item that gave rise to deferred income taxes were as follows:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$168,290	$ 250,374
Organization and startup costs	60,942	110,589
Net unrealized losses on securities	19,769	58,488
Other	25,058	10,186
	274,059	429,637
Deferred tax liabilities:		
Accumulated depreciation	(1,266)	(17,155)
Valuation allowance	-0-	(343,369)
Net deferred tax asset	$272,793	$ 69,113

In management's opinion, based on expectations of future taxable income and other relevant considerations, it is more likely than not that future taxable income will be sufficient to utilize deferred tax assets that existed as of December 31, 2017.

The Bank does not have any material uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2017 or 2016. Fiscal years ending on or after December 31, 2014 remain subject to examination by federal and state tax authorities.

NOTE 9—STOCKHOLDERS' EQUITY

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval.

In 2015, the Bank issued 1,171,540 stock purchase warrants to each shareholder allowing them to purchase one share of preferred stock at $3.00 per share for each share of common stock owned. During 2017 and 2016, stock purchase warrants exercised was 323,333 and 279,666, respectively. As of December 31, 2017, all unexercised stock purchase warrants had expired. As of December 31, 2016, stock purchase warrants outstanding totaled 635,207.

NOTE 10—STOCK OPTIONS

The Bank has established a Directors' Stock Option Plan under which it may grant up to 164,308 shares to directors. The exercise price of the outstanding options is the greater of par value, book value or the market value per share on the date of grant. The options are exercisable starting during the year subsequent to the grant date at one-third per year and expire ten years from the grant date. At December 31, 2017, options for the purchase of 42,000 shares are outstanding under the plan, of which 20,000 expire in 2023 and 22,000 expire in 2024.

In addition, the Bank has established an Officers' and Employees' Stock Option Plan under which it may grant up to 70,000 shares to officers and employees. The exercise price of the outstanding options is the greater of par value, book value or the market value per share on the date of grant. The options are

NOTE 10—STOCK OPTIONS (Continued)

exercisable starting during the year subsequent to the grant date at one-fifth per year and expire ten years from the grant date. At December 31, 2017, options for the purchase of 17,400 shares are outstanding under the plan, of which 5,000 expire in 2023 and 2024 and 7,400 expire in 2025.

A summary of the status of the Bank's outstanding stock options is presented below:

	2017		2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of year	74,400	$5.09	158,400	$5.09
Granted	-0-	-0-	-0-	-0-
Exercised	-0-	-0-	-0-	-0-
Forfeited	(15,000)	5.08	(84,000)	5.08
Outstanding at end of year	59,400	$5.10	74,400	$5.09
Weighted average fair value per share of options granted during the year		$ n/a		$ n/a

Grant Date by Year	Number of Remaining Shares Outstanding	Remaining Weighted Average Contractual Life in Years	Weighted Average Exercise Price	Number of Shares Exercisable
2013	25,000	5.55	$5.05	25,000
2014	27,000	6.73	5.15	27,000
2015	7,400	7.17	5.10	4,934
Total	59,400	6.29	$5.10	56,934

The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon an estimated fair market value of $6.84 on December 31, 2017 the options outstanding had an aggregate intrinsic value of approximately $103,400. At December 31, 2016, based upon fair market value of $6.12, the outstanding options outstanding had an aggregate intrinsic value of approximately $77,000. The outstanding stock options as of December 31, 2017 have contractual terms that permit exercise of the options through 2013.

The total fair value of shares vested and recognized as compensation expense was approximately $400 in 2017 and $2,000 in 2016. As of December 31, 2017, approximately $300 in stock-based compensation related to the unvested portion of options remain to be recognized, which will be recognized in 2018.

NOTE 11—COMMITMENTS AND CONTINGENCIES

Credit Related Financial Instruments:

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. These financial instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

NOTE 11—COMMITMENTS AND CONTINGENCIES (Continued)

Credit Related Financial Instruments (Continued):

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

	2017	2016
Commitments to extend credit	$2,341,000	$764,000

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitment amounts are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. 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 of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may be uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

The Bank has not incurred any losses on its commitments in 2017 or 2016.

Unused Lines of Credit:

The Bank has unsecured federal funds lines of credit with other financial institutions enabling the Bank to borrow up to $6,500,000 at December 31, 2017 and $5,500,000 at December 31, 2016 with interest determined at the time of any advance. The agreements are reviewed annually.

Other:

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Bank's financial statements.

NOTE 12—CONCENTRATIONS

At various times throughout the period, the Bank maintained cash balances with financial institutions that exceed federally insured limits. The Bank monitors the capital adequacy of these financial institutions on a quarterly basis.

In addition, at December 31, 2017 and 2016, one customer maintained deposit accounts amounting to approximately 6.9% and 6.8%, respectively, of the Bank's total deposits.

NOTE 13—RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with its directors, significant stockholders, and their affiliates (related parties). The Bank had no loans to such related parties at December 31, 2017 or 2016. Certain

NOTE 13—RELATED PARTY TRANSACTIONS (Continued)

related parties maintain deposit balances with the Bank in the aggregate amount of approximately $1,831,000 and $6,206,000, respectively, at December 31, 2017 and 2016.

NOTE 14—BENEFIT PLANS

The Bank has established a 401(k) profit sharing plan (the "Plan") which covers all employees meeting certain age and service requirements. Each year participants may contribute up to 100% of compensation, as defined in the Plan. The Plan qualifies as a "Safe Harbor 401(k) Plan." As a Safe Harbor 401(k) Plan, an employee who is eligible to make salary deferrals under the plan is eligible to receive Safe Harbor matching as defined in the Plan. Other employer contributions are discretionary and are determined annually by the Board of Directors. Safe Harbor matching amounted to approximately $25,000 in 2017 and $17,000 in 2016.

NOTE 15—INCOME PER COMMON SHARE

The table below shows the presentation of basic and diluted income per common share for the years ended December 31st:

	2017	2016
Net income	$ 205,465	$ 353,701
Preferred stock dividends	(28,167)	(17,833)
Net income available to common shareholders (numerator)	$ 177,298	$ 335,868
BASIC:		
Basic average common shares outstanding (denominator)	1,171,540	1,171,540
Basic income per share	$ 0.15	$ 0.29
DILUTED:		
Average common shares outstanding	1,171,540	1,171,540
Dilutive effect of common stock equivalents	12,662	9,553
Diluted average common shares outstanding (denominator)	1,184,202	1,181,093
Diluted income per share	$ 0.15	$ 0.28
Common stock equivalents outstanding that are anti-dilutive and thus excluded from calculations of diluted number of share above	-0-	-0-

NOTE 16—REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting

NOTE 16—REGULATORY MATTERS (Continued)

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 in the table below) of Total capital, Tier I capital, and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the Bank has met applicable regulatory guidelines to be considered well capitalized. To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the following table. There are no conditions or events that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios, and minimum amounts under current regulatory standards, as of December 31, 2017 and 2016, are presented in the following table:

	Actual		Minimum Capital Requirement:		Minimum To Be Well Capitalized:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017—						
Total Capital						
(to Risk Weighted Assets)	$9,592,000	15.27% ≥	$5,025,000 ≥	8.00% ≥	$6,281,000 ≥	10.00%
Tier I Capital						
(to Risk Weighted Assets)	$8,928,000	14.21% ≥	$3,769,000 ≥	6.00% ≥	$5,025,000 ≥	8.00%
Common Equity Tier I Capital						
(to Risk Weighted Assets)	$6,846,000	10.90% ≥	$2,826,000 ≥	4.50% ≥	$4,083,000 ≥	6.50%
Tier I Capital						
(to Average Assets)	$8,928,000	10.16% ≥	$3,514,000 ≥	4.00% ≥	$4,392,000 ≥	5.00%
As of December 31, 2016—						
Total Capital						
(to Risk Weighted Assets)	$8,501,000	14.31% ≥	$4,753,000 ≥	8.00% ≥	$5,942,000 ≥	10.00%
Tier I Capital						
(to Risk Weighted Assets)	$7,836,000	13.19% ≥	$3,565,000 ≥	6.00% ≥	$4,753,000 ≥	8.00%
Common Equity Tier I Capital						
(to Risk Weighted Assets)	$6,354,000	10.69% ≥	$2,674,000 ≥	4.50% ≥	$3,862,000 ≥	6.50%
Tier I Capital						
(to Average Assets)	$7,836,000	9.40% ≥	$3,334,000 ≥	4.00% ≥	$4,168,000 ≥	5.00%

New risk-based capital rules became effective January 1, 2015 requiring the Bank to maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

NOTE 17—FAIR VALUE MEASUREMENT

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly

NOTE 17—FAIR VALUE MEASUREMENT (Continued)

transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement describes three levels of inputs that may be used to measure fair value: Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. Level 3: Significant unobservable inputs that reflect a corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities. Where quoted prices are available in an active market, available for sale securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products. The Bank's available for sale securities fall into Level 2 of the fair value hierarchy. These securities are generally priced via independent service providers. In obtaining such valuation information, the Bank has evaluated the valuation methodologies used to develop the fair values. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table presents the financial instruments carried at fair value as of December 31, 2017 and 2016, by caption on the statements of financial condition and by the valuation hierarchy (as described above):

Assets and liabilities measured at fair value on a recurring basis:

	Total carrying value in the statements of financial condition	Quoted market prices in an active market (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)
December 31, 2017—				
Securities available for sale	$1,833,641	$-0-	$1,833,641	$-0-
December 31, 2016—				
Securities available for sale	$1,919,420	$-0-	$1,919,420	$-0-

Impaired Loans. A loan is considered to be impaired when it is probable the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. In most cases, the Bank measures fair value based on the value of the collateral securing the loan. Collateral may be in the form of real estate and/or business or personal assets, including but not limited to equipment, inventory, and accounts receivable. The majority of the collateral is real estate. The fair value of real estate collateral is determined based on third party appraisals by qualified licensed appraisers as well as internal estimates. The fair value of other business or personal assets is generally based on amounts reported on the financial statements of the customer or customer's business. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation and

NOTE 17—FAIR VALUE MEASUREMENT (Continued)

management's knowledge of the customer and the customer's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified.

All loans where the underlying collateral is real estate, either construction, land, commercial, or residential, an independent appraisal is used to identify the value of the collateral. The approaches within the appraisal report include sales comparison, income, and replacement cost analysis. The resulting value will be adjusted by a selling cost of 10% and the residual value will be used to determine if there is an impairment. Commercial loans and consumer loans utilize a liquidation approach to the impairment analysis where eligible accounts receivable is discounted by 15%-20% and inventory and equipment by 75%.

Assets and liabilities measured at fair value on a nonrecurring basis:

	Total carrying value in the statements of financial condition	Quoted market prices in an active market (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)
December 31, 2017—				
Impaired loans, net of specific reserves	$ 690,596	$-0-	$-0-	$ 690,596
December 31, 2016—				
Impaired loans, net of specific reserves	$1,562,926	$-0-	$-0-	$1,562,926

There were no transfers between levels of the fair value hierarchy for the years ended December 31, 2017 and 2016.

NOTE 18—FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are based on quoted market prices where available or calculated using present value techniques. Since quoted market prices are not available on many of our financial instruments, estimates may be based on the present value of estimated future cash flows and estimated discount rates.

The following methods and assumptions were used to estimate the fair value of financial instruments where it is practical to estimate fair value:

Securities available for sale: Based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Securities held to maturity: The fair value of debt securities that are readily traded in the markets is based upon quoted prices for similar assets or externally developed models that use significant observable inputs. Debt securities that do not have readily determinable fair value discounted cash flows model are used in determining fair value.

Restricted equity securities: Because these securities are not marketable, the carrying amount approximates the fair value.

NOTE 18—FINANCIAL INSTRUMENTS (Continued)

Loans held for sale: Loans held for sale are carried at the lower of cost or estimated market value. Market value is derived from secondary market quotations for similar instruments.

Loans: For variable rate loans the carrying amount approximates the fair value. For fixed rate loans the fair value is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Deposits: The carrying amount of non-maturity deposits such as demand deposits, money market and saving deposits approximates the fair value. The fair value of deposits with predetermined maturity dates such as certificate of deposits is estimated by discounting the future cash flows using current rates of similar deposits with similar remaining maturities.

FHLB advances: The carrying amounts of variable rate long-term borrowings approximate the fair values at the reporting date. The fair value of fixed rate long-term borrowings was based on quoted market prices or, if a quoted market price is not available, discounted cash flow analyses based on current incremental borrowing rates for similar types of instruments.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

The following table presents the estimated fair value of the Bank's financial instruments at the dates indicated:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Securities available for sale	$ 1,833,641	1,833,641	$ 1,919,420	1,919,420
Securities held to maturity	13,838,895	14,156,568	6,887,030	6,882,796
Restricted equity securities	347,500	347,500	290,000	290,000
Loans held for sale	270,308	270,308	-0-	-0-
Loans receivable	64,701,089	63,689,089	67,579,216	66,311,216
Financial liabilities:				
Deposits	72,860,054	69,710,054	74,004,041	72,101,041
FHLB advances	6,000,000	5,953,000	5,000,000	5,000,000

NOTE 19—SUBSEQUENT EVENTS

On April 2, 2018, the Bank purchased a building in Jupiter, Florida for $2.7 million. This building will be used for branch expansion once regulatory approval has been received.

4,200,000 Shares

Common Stock

OFFERING CIRCULAR

, 2019

B. Riley FBR

Hovde Group, LLC

Until and including , 2019 (25 days after the date of this offering circular), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver an offering circular. This delivery requirement is in addition to the obligation of dealers to deliver an offering circular when acting as underwriters and with respect to their unsold allotments or subscriptions.