**Board of Governors of the Federal Reserve System**

# Annual Report of Holding Companies—FR Y-6

## Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, John W. Dwyer
Name of the Holding Company Director and Official

President, Chairman of the Board
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

*With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.*

Signature of Holding Company Director and Official

03/29/2019
Date of Signature

*For holding companies not registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

**For Federal Reserve Bank Use Only**

RSSD ID ____________
C.I. ____________

**Date of Report** (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Capital Funding Bancorp, Inc.
Legal Title of Holding Company

1422 Clarkview Road
(Mailing Address of the Holding Company) Street / P.O. Box

| Baltimore | MD | 21209 |
|---|---|---|
| City | State | Zip Code |

N/A
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Jason C. Starner | Vice President, Controller |
|---|---|
| Name | Title |

410-769-5826
Area Code / Phone Number / Extension

410-769-5827
Area Code / FAX Number

jstarner@cfgcb.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .................................. 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report ............................ ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

# For Use By Tiered Holding Companies

*Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.*

N/A

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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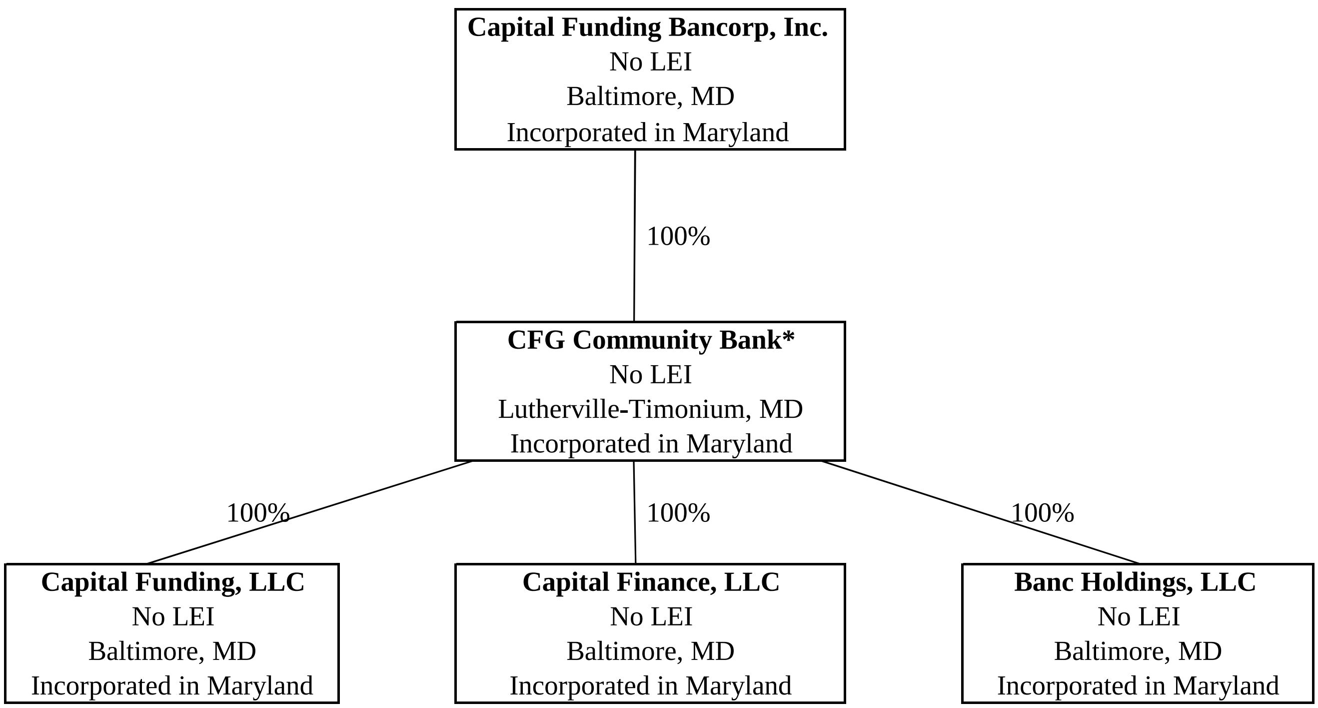
**FORM FR Y-6**
**CAPITAL FUNDING BANCORP, INC.**
**Baltimore, Maryland**
**Fiscal Year Ending December 31, 2018**

Report Item

1: Annual Report to Shareholders is enclosed.

2a: Organization Chart




* CFG Community Bank is the managing member of Capital Funding, LLC; Capital Finance, LLC, and Banc Holdings, LLC.

2b: Domestic Branch Listing is enclosed.

**Form FR Y-6**
**CAPITAL FUNDING BANCORP, INC.**
**FISCAL YEAR ENDING DECEMBER 31, 2018**

**Report Item 3: Securities holders**
**1(a)(b)(c) and (2)(a)(b)(c)**

| Current securities holders with ownership, control or holdings of 5% of more with power to vote as of fiscal year ending 12-31-2018: | | | Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018: | | |
|---|---|---|---|---|---|
| (1)(a)<br>Name,<br>City, State, Country | (1)(b)<br>Country of Citizenship<br>or Incorporation | (1)(c)<br>Number and Percentage of<br>Each Class of Voting<br>Securities | (2)(a)<br>Name,<br>City, State, Country | (2)(b)<br>Country of Citizenship<br>or Incorporation | (2)(c)<br>Number and Percentage of<br>Each Class of Voting<br>Securities |
| John W. Dwyer<br>Baltimore, MD<br>USA | USA | 69,506 - 99.9871%<br>Common Stock | None | | |

**Form FR Y-6**
**CAPITAL FUNDING BANCORP, INC.**
**FISCAL YEAR ENDING DECEMBER 31, 2018**

**Report Item 4: Insiders**
**(1), (2) (3)(a)(b)(c) and (4)(a)(b)(c)**

| (1) Name, City, State, Country | (2) Principal Occupation if other than with Holding Company | (3)(a) Title & Position with Holding Company | (3)(b) Title & Position with Subsidiaries (Include names of subsidiaries) | (3)(c) Title & Position with Other Businesses (Include names of other businesses) | (4)(a) Percentage of Voting Share in Holding Company | (4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries) | (4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentages of voting securities held) |
|---|---|---|---|---|---|---|---|
| John W. Dwyer<br>Baltimore, MD<br>USA | President & Chief Executive Officer, Capital Funding Group, Inc. | President, Chairman of Board and Director | Chairman of Board and Director, CFG Community Bank | President & Chief Executive Officer, Capital Funding Group, Inc. | 99.9871% | None | Capital Funding Group, Inc. and Subsidiaries (100%) |
| Deborah A. Spangenberg<br>Ellicott City, MD<br>USA | President, Capital Funding, LLC and Capital Finance, LLC | Executive Vice President & Secretary, Director | Vice Chairman and Director, CFG Community Bank | N/A | 0.0014% | None | N/A |
| Daniel S. Baird<br>Sherwood Forest, MD<br>USA | Chief Operating Officer, Capital Funding Group, Inc. | Chief Financial Officer & Treasurer, Director | N/A | N/A | 0.0014% | None | N/A |

**Results:** A list of branches for your depository institution: CFG COMMUNITY BANK (ID_RSSD: 2471239).
This depository institution is held by CAPITAL FUNDING BANCORP, INC. (3927078) of BALTIMORE, MD.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

**Reconciliation and Verification Steps**
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

**Actions**
**OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
**Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
**Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
**Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
**Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

**Submission Procedure**
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

| Data Action | Effective Date | Branch Service Type | Branch ID_RSSD* | Popular Name | Street Address | City | State | Zip Code | County | Country | FDIC UNINUM* | Office Number* | Head Office | Head Office ID_RSSD* | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OK | | Full Service (Head Office) | 2471239 | CFG COMMUNITY BANK | 11 W. RIDGELY ROAD | LUTHERVILLE | MD | 21093 | BALTIMORE | UNITED STATES | Not Required | Not Required | CFG COMMUNITY BANK | 2471239 | |
| OK | | Limited Service | 3591433 | ANNAPOLIS BRANCH | 888 BESTGATE ROAD, SUITE 212 | ANNAPOLIS | MD | 21401 | ANNE ARUNDEL | UNITED STATES | Not Required | Not Required | CFG COMMUNITY BANK | 2471239 | |
| OK | | Full Service | 3138614 | BALTIMORE BRANCH | 1615 THAMES STREET | BALTIMORE | MD | 21231 | BALTIMORE CITY | UNITED STATES | Not Required | Not Required | CFG COMMUNITY BANK | 2471239 | |

**CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES**

REPORT ON AUDITS OF
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

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DHG
DIXON HUGHES GOODMAN LLP

# INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Capital Funding Bancorp, Inc.
Baltimore, Maryland

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of Capital Funding Bancorp, Inc. (the "Company", which includes Capital Funding, LLC), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

**Baltimore, Maryland**
**March 26, 2019**

**CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

($000's except share data)

| | 2018 | 2017 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 9,536 | $ 6,729 |
| Federal Reserve Bank deposit | 86,514 | 51,467 |
| Federal funds sold and Federal Home Loan Bank deposit | 198 | 235 |
| Cash and cash equivalents | 96,248 | 58,431 |
| Securities | | |
| Available-for-sale (at fair value) | 999 | 2,499 |
| Held-to-maturity | 2,331 | 2,384 |
| Total securities | 3,330 | 4,883 |
| Restricted stock | 2,763 | 5,197 |
| Loans and leases, less allowance of $15,619 and $13,714 | 680,501 | 569,725 |
| Foreclosed real estate | 133 | - |
| Premises and equipment | 5,294 | 6,009 |
| Accrued interest receivable | 2,076 | 2,699 |
| Mortgage servicing rights | 38,569 | 33,938 |
| Goodwill | 1,233 | 1,233 |
| Other assets | 4,469 | 3,345 |
| TOTAL ASSETS | $ 834,616 | $ 685,460 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits | | |
| Non-interest-bearing | $ 145,913 | $ 114,821 |
| Interest-bearing | 512,820 | 381,871 |
| Total deposits | 658,733 | 496,692 |
| Securities sold under repurchase agreements | 486 | 488 |
| Advances from the Federal Home Loan Bank | 1,000 | 57,000 |
| Senior notes payable | 25,000 | - |
| Subordinated notes payable | 50,000 | 35,000 |
| Accrued interest payable | 3,311 | 1,663 |
| Other liabilities | 6,050 | 5,455 |
| Total liabilities | 744,581 | 596,298 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, par value $1.00 per share; authorized 100,000 shares, shares issued and outstanding of 69,515 and 69,514 at December 31, 2018 and 2017, respectively. | 70 | 70 |
| Additional paid-in capital | 41,632 | 41,631 |
| Accumulated earnings | 48,333 | 47,461 |
| Total stockholders' equity | 90,035 | 89,162 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 834,616 | $ 685,460 |

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

**CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
($000's)

| | 2018 | 2017 |
|---|---|---|
| INTEREST INCOME | | |
| Loans and leases, including fees | $ 39,991 | $ 38,772 |
| Balances due from depository institutions | 1,479 | 562 |
| Investment securities | 2,014 | 1,175 |
| Total interest income | 43,483 | 40,508 |
| INTEREST EXPENSE | | |
| Deposits | 6,369 | 3,591 |
| Notes payable | 2,918 | 2,246 |
| Advances from the Federal Home Loan Bank | 549 | 328 |
| Securities sold under repurchase agreements & other | - | 1 |
| Total interest expense | 9,836 | 6,166 |
| NET INTEREST INCOME | 33,648 | 34,342 |
| PROVISION FOR LOAN AND LEASE LOSSES | 2,017 | 5,371 |
| Net interest income after provision for loan losses | 31,631 | 28,972 |
| NON-INTEREST INCOME | | |
| Mortgage servicing | 3,968 | 3,942 |
| Mortgage origination | 12,782 | 10,324 |
| Valuation of mortgage servicing rights | 4,631 | 1,541 |
| Service charges on deposit accounts | 736 | 690 |
| Lease equipment revenue | 396 | 584 |
| Gain on disposal of lease equipment | 366 | - |
| Litigation restitution income | 893 | - |
| Other | 1 | 10 |
| Total non-interest income | 23,773 | 17,092 |
| NON-INTEREST EXPENSES | | - |
| Salaries and employee benefits | 21,336 | 21,071 |
| Charitable contributions | 3,536 | 1,066 |
| Premises and equipment expenses | 2,305 | 2,538 |
| Marketing and advertising | 1,227 | 1,031 |
| Legal and accounting fees | 937 | 600 |
| Data processing fees | 608 | 495 |
| FDIC insurance and regulatory assessments | 268 | 379 |
| Foreclosed asset expense and impairment | 496 | 741 |
| Franchise taxes | 363 | 179 |
| Consulting fees | 312 | 515 |
| Other | 2,537 | 1,885 |
| Total non-interest expenses | 33,925 | 30,499 |
| NET INCOME | 21,479 | 15,564 |

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

**CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
($000's except share data)

| | Common Shares Outstanding | Common stock | Additional paid-in capital | Accumulated earnings | Total |
|---|---|---|---|---|---|
| January 1, 2017 | 69,513 | $ 70 | $ 41,630 | $ 40,692 | $ 82,392 |
| Net income | - | - | - | 15,564 | 15,564 |
| Issuance of common stock | 1 | - | 1 | - | 1 |
| Dividends paid to stockholders | - | - | - | (8,795) | (8,795) |
| December 31, 2017 | 69,514 | 70 | 41,631 | 47,461 | 89,162 |
| Net income | | - | - | 21,479 | 21,479 |
| Issuance of common stock | 1 | - | 1 | - | 1 |
| Dividends paid to stockholders | - | - | - | (20,607) | (20,607) |
| December 31, 2018 | 69,515 | $ 70 | $ 41,632 | $ 48,333 | $ 90,035 |

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

**CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
($000's)

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 21,479 | $ 15,564 |
| Adjustments to reconcile net income | | |
| to net cash provided by operating activities: | | |
| Depreciation and amortization | 606 | 814 |
| Provision for loan and lease losses | 2,017 | 5,371 |
| Amortization of purchase accounting adjustments, net | - | 5 |
| Premium income on sale of GNMA participation certificates | (7,125) | (5,807) |
| Valuation of mortgage servicing rights | (4,631) | (1,540) |
| Loss on restricted stock | 30 | - |
| Net gain on sale of equipment | (366) | (15) |
| Net gain on sale of foreclosed real estate | - | (14) |
| Net Changes in: | | |
| Accrued interest receivable | 623 | (366) |
| Other assets | (1,114) | 614 |
| Accrued interest payable | 1,648 | 1,032 |
| Other liabilities | 595 | (2,158) |
| Net cash provided by operating activities | 13,762 | 13,500 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net (increase) decrease in loans | (112,926) | 17,493 |
| Purchase of premises and equipment | (591) | (176) |
| Purchase of FHLB stock | (11,305) | (16,509) |
| Proceeds from sale of foreclosed real estate | - | 120 |
| Proceeds from sale of premises and equipment | 1,057 | 47 |
| Proceeds from sale of FHLB stock | 13,709 | 13,133 |
| Funding of GNMA participation certificates | (567,045) | (350,176) |
| Purchase of U. S. Treasuries & held-to-maturity securities | (2,974) | (8,537) |
| Proceeds from sale and maturities of securities | 578,697 | 381,412 |
| Net cash (used in) provided by investing activities | (101,378) | 36,807 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposits | 162,041 | (121,220) |
| Net decrease in securities sold under repurchase agreements | (2) | (1,114) |
| Dividends paid to stockholders | (20,607) | (8,795) |
| Net (decrease) increase in FHLB advances | (56,000) | 56,000 |
| Issuance of notes payable | 40,000 | 35,000 |
| Issuance of common stock | 1 | 1 |
| Net cash provided by (used in) financing activities | 125,433 | (40,128) |
| Net increase in cash and cash equivalents | 37,817 | 10,179 |
| Cash and cash equivalents at beginning of year | 58,431 | 48,252 |
| Cash and cash equivalents at end of year | $ 96,248 | $ 58,431 |

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

**CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | |
| Transfer from loans to foreclosed real estate | $ 133 | $ 106 |
| Cash paid for interest | $ 8,187 | $ 5,134 |
| Cash paid for taxes | $ 363 | $ 179 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Nature of Business

On April 3, 2009, Capital Funding Bancorp, Inc. ("the "Company") acquired AmericasBank Corp, Inc. which was subsequently renamed to CFG Community Bank (the "Bank"). The Bank is a wholly owned subsidiary of the Company and is chartered in the state of Maryland. CFG Community Bank is a member of the Federal Reserve System and the Federal Home Loan Bank (the "FHLB") of Atlanta. The Bank is regulated and supervised by State of Maryland Commissioner of Financial Regulation (the "Commissioner") and subject to regulation by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Richmond (the "Reserve Bank"). The Bank primarily operates its lending and administrative functions from its corporate headquarters in Baltimore, Maryland. The Bank operates three bank branches in the Baltimore/Annapolis Metropolitan Statistical Area and focuses on Commercial & Industrial ("C&I") and Commercial Real Estate ("CRE") lending. CFG Community Bank has three subsidiary companies which are as follows:

Capital Funding, LLC is a wholly-owned subsidiary of the Bank with its office in Baltimore, Maryland. Capital Funding, LLC was formed on April 17, 2009, as part of the merger with AmericasBank Corp, Inc. Capital Funding, LLC became an approved mortgagee by the Department of Housing and Urban Development ("HUD") and an approved Government National Mortgage Association ("GNMA") securities issuer during 2009. Capital Funding, LLC, who has customers throughout the United States, specializes in originating bridge loans to skilled nursing and assisted living facilities before they are permanently financed through the HUD 232 program, as well as direct placement of first mortgages through HUD. As HUD loans are originated, they are insured by the Federal Housing Administration ("FHA") and sold to investors as GNMA project securities, with the servicing of such securities retained by Capital Funding, LLC.

Capital Finance, LLC is a wholly-owned subsidiary of the Bank with its office in Baltimore, Maryland. Capital Finance, LLC was formed on October 5, 2005, and was operated by Capital Funding Group, Inc., an affiliate company, until June 18, 2009 when it was contributed to the Company. Capital Finance, LLC focuses on originating accounts receivable ("A/R") loans to skilled nursing facility operators located throughout the United States who borrow funds to finance their receivables from Medicare and Medicaid. Advances are made based on client-submitted certifications of available Medicaid/Medicare receivables and the loans originated are secured by this A/R.

Banc Holding, LLC is the Bank's wholly-owned entity used for holding certain real estate acquired through foreclosure. There was no activity in this entity during 2018 and 2017.

### B. Basis of Presentation

The accounting and reporting policies reflected in the financial statements of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. For GAAP accounting purposes, the Company is not a public business entity ("PBE").

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

**C. Principles of Consolidation**

The consolidated financial statements include the accounts of Capital Funding Bancorp, Inc. and its wholly-owned subsidiary CFG Community Bank. The Bank has three wholly-owned subsidiaries which are Banc Holdings LLC, Capital Funding, LLC, and Capital Finance, LLC. All significant intercompany transactions are eliminated. The investment in subsidiaries is recorded on the Company's books (Parent Only) on the basis of its equity in the net assets of the subsidiary.

**D. Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**E. Subsequent Events**

The Company has evaluated subsequent events for potential recognition and/or disclosure through March 26, 2019, the date the consolidated financial statements were available to be issued.

In February 2019, the Bank began the process of changing its primary regulator from the Federal Reserve System to the Federal Deposit Insurance Company (the “FDIC”). The process is underway, but is not complete and still subject to additional regulatory approvals. This change will not have any impact on the Bank’s FDIC insurance coverage.

**F. Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

**G. Investment Securities**

Investment securities are classified at the time of purchase as securities held-to-maturity or securities available-for-sale based on management's ability and intent. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Amortization rates for mortgage-backed securities are periodically adjusted to reflect changes in the prepayment speeds of the underlying mortgages. Interest and dividends on investment securities are recorded in interest income when earned. The cost of securities for purposes of computing realized and unrealized gains and losses is based on the specific identification method. Realized gains and losses on the sale of investment securities and declines in fair value judged to be other-than-temporary are recorded on a net basis in non-interest income.

*Held-to-maturity* – Investment securities that management has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts.

*Available-for-sale* – Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, need for liquidity, and changes in the availability of and the yield of alternative investments, are classified as available-for-sale. These securities are carried at fair value. Unrealized gains and losses, net of tax, are excluded from earnings and reported as accumulated other comprehensive income/(loss) ("AOCI"), a separate component of stockholders' equity, until the gains and losses are realized.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are recognized by write-downs of the individual securities to their fair value. The Company evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as realized losses through earnings. Alternatively, if the criteria regarding intent or requirement to sell are not met, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

**H. Restricted Stock**

Restricted stock is stock from the FHLB of Atlanta, the Federal Reserve Bank, Atlantic Central Banker's Bank, and Maryland Financial Bank, which are restricted as to their marketability. As no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost.

**I. Forward Loan Sales Commitments**

The Company uses forward loan sales commitments for HUD loan sales to investors, which are considered derivatives. On a quarterly basis, for HUD loan deals pending settlement, a fair value estimate for the outstanding forward loan sales commitments is recorded to other assets and current period earnings.

**J. Loans and Leases**

Loans and leases are stated at face value, adjusted for deferred origination costs, deferred origination fees, and the allowance for loan and lease losses. The Bank makes loans to customers located nationally.

Interest on loans and leases is accrued based on the principal amounts outstanding. Origination fees and costs are deferred and recognized as an adjustment of the related yield using an approximate interest method. The accrual of interest is discontinued when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Past due status is based on the contractual terms of the loan or lease.

Loans are considered impaired when, based on current information management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms. Generally, loans and leases are not reviewed for impairment until the accrual of interest has been discontinued. If collection of principal is evaluated as doubtful, all payments are applied to principal.

The Bank accounts for loans in accordance with ASC Topic 310, "Receivables," when due to a deterioration in a borrower's financial position, the Bank grants concessions that would not otherwise be considered. Interest income is recognized on these loans using the accrual method of accounting, provided they are performing in accordance with their restructured terms and are considered collectible.

**K. Healthcare Concentration**

The Bank has a concentration in its loan portfolio to commercial borrowers in the healthcare industry, primarily, loans to nursing homes and assisted living facilities. This concentration relates to bridge loans originated within Capital Funding, LLC, as well as accounts receivable-based loans originated at Capital Finance, LLC. At December 31, 2018 and 2017, healthcare loans comprised approximately 55% ($385 million) and 49% ($285 million) of the total loan portfolio, respectively. The Bank has an internal healthcare asset concentration limit, which equals 300% of risk-based capital of the Bank. Healthcare assets include healthcare loans and qualified mortgage servicing rights. The Bank periodically evaluates its internal healthcare asset concentration limit and continuously monitors the concentration levels. At December, 31 2018 and 2017, the Bank's healthcare asset concentration was 256% and 258%, respectively. Additionally, the Bank considers this concentration in its calculation of the allowance for loan and lease losses.

**L. Allowance for Loan and Lease Losses**

The allowance for loan and lease losses (the "allowance") represents an amount that, in the judgment of management, will be adequate to absorb probable losses on outstanding loans and leases that may become uncollectible. The allowance represents an estimate made based upon two principles of accounting: (1) ASC Topic 450 "Contingencies", that requires losses to be accrued when their occurrence is probable and estimable, and (2) ASC Topic 310, "Receivables," that requires losses be accrued when it is probable that the lender will not collect all principal and interest due under the original terms of the loan. The adequacy of the allowance is determined through careful evaluation of the loan portfolio. This determination is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and condition of the current economic environment and other qualitative factors that may be subject to change. Loans and leases deemed uncollectible are charged against the allowance and recoveries of previously charged-off amounts are credited to it. The level of the allowance is adjusted through the provision for loan losses that is recorded as a current period expense.

The methodology for assessing the appropriateness of the allowance includes a specific allowance, a formula allowance and a non-specific allowance. The specific allowance is for risk rated credits on an individual basis. The formula allowance reflects historical losses by credit category. The non-specific allowance captures losses whose impact on the portfolio have occurred but have yet to be recognized in either the specific allowance or the formula allowance. The factors used in determining the non-specific allowance include trends in delinquencies, trends in volumes and terms of loans, the size of loans relative to the allowance, concentration of credits, the quality of the risk identification system and credit administration and local and national economic trends.

These factors are applied to each segment of the loan portfolio and consider the characteristics contained thereof. If circumstances differ materially from the assumptions used in determining the allowance, future adjustments to the allowance may be necessary and results of operations could be affected. Because events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above.

A loan is determined to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of insignificant delay in payment if the Bank expects to collect all amounts due, including past-due interest. The Bank generally considers a period of insignificant delay in payment to include delinquency up to and including 90 days. Impairment is measured through a comparison of the loan's carrying amount to the present value of its expected future cash flows discounted at the loan's effective interest rate, or at the loans' observable market price or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are evaluated collectively for impairment. Accordingly, the Bank does not separately identify individual residential first and second mortgage loans and consumer installment loans for impairment disclosure, unless such loans are the subject of a restructuring agreement.

Credit quality risk ratings include regulatory classification of special mention, substandard, doubtful, and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weakness may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified substandard with the added characteristics that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

Impaired loans are therefore generally comprised of commercial mortgage, real estate development, and certain restructured residential loans. In addition, impaired loans are generally loans which management has placed in non-accrual status. Loans are placed in non-accrual status on the earlier of the date that management determines that the collection of principal and/or interest is in doubt or the date that principal or interest is 90 days or more past due. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Bank's policy for recognizing interest revenue on impaired loans does not differ from its overall policy for interest recognition.

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

**M. Foreclosed Real Estate**

Real estate acquired through foreclosure is recorded at fair market value less estimated selling costs on the date acquired. Fair value is determined utilizing third party appraisals, broker price opinions or other similar methods. Losses incurred at the time of acquisition of the property are charged to the allowance for loan and lease losses. Subsequent reductions in the estimated value of the property are included in other operating expenses. Costs relating to holding such property are charged against income in the current period, while costs relating to improving such real estate are capitalized until a salable condition is reached.

**N. Premises and Equipment**

Premises and equipment, including leasehold improvements, are recorded at cost, less accumulated depreciation and amortization. Operating leased assets are included in premises and equipment at cost less accumulated depreciation. Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the of the respective assets. Operating leased assets are amortized using the straight-line method over the estimated useful life of the asset. Repairs and maintenance are charged to expense as incurred, while improvements which extend the estimated useful life of the asset are capitalized and depreciated over the remaining life of the asset. Computer software is included in other assets at amortized cost. Software amortization expense is included in other non-interest expenses.

**O. Mortgage Servicing Rights**

Mortgage servicing rights ("MSRs") are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets. ASC Topic 860, "Transfers and Servicing," allows the recognition of MSRs as an asset only when the economic benefits exceed "adequate compensation" for performing the servicing. Adequate compensation is defined as the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. Economic benefits include the contractually specified servicing fee as well as other sources of cash flow such as float, late fees, and other ancillary income related to the servicing of the mortgage loans. Estimated fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. As the Company has elected to account for its MSRs using the fair value option per ASC Topic 860, this asset is remeasured to fair value at each quarterly reporting date with changes in fair value reported in non-interest income. Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and recorded as non-interest income when earned.

**P. Goodwill**

Goodwill represents the cost in excess of the fair value of net assets acquired in transactions accounted for as acquisitions. ASC Topic 350, "Intangibles," requires that goodwill no longer be amortized over an estimated useful life, but rather be tested at least annually for impairment. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

The implied fair value of goodwill is the amount determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit to which goodwill has been allocated from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess.

The carrying amount of goodwill resulting from the Company's acquisition of AmericasBank Corp, Inc in 2009 had a balance of $1,233,238 at December 31, 2018 and 2017, respectively.

**Q. Transfers of Financial Assets**

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

**R. Off Balance Sheet Credit Related Financial Instruments**

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial lines of credit, letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheets.

**S. Income Taxes**

Under current provisions of the Internal Revenue Code and applicable state laws, the Company and its subsidiaries are not subject to income taxes as they have elected S-Corporation status. The results of operations are includable in the income tax returns of their respective stockholders or members. No provision for income tax expense has been included in the financial statements, however, the Company is subject to certain non-resident state income taxes and state franchise taxes which are included in non-interest expenses.

The Company does not have any uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits per ASC 740, "Income Taxes."

**T. Comprehensive Income**

Comprehensive income includes net income and the unrealized gain or loss on investment securities available-for-sale. At December 31, 2018 and 2017, there was no unrealized gain or loss on investment securities available-for-sale as the cost approximated the fair value of investments. Accordingly, accumulated other comprehensive income was negligible and thus net income and comprehensive income were equivalent in both years presented.

## 2. CAPITAL ADEQUACY

The Bank is required to comply with applicable capital adequacy standards established by the FDIC ("Capital Rules"). The Company is exempt from the Federal Reserve Board's capital adequacy standards as it believes it meets the requirements of the Small Bank Holding Company Policy Statement. State chartered banks, such as the Bank, are subject to similar capital requirements adopted by the Commissioner.

The Capital Rules, among other things, (i) include a "Common Equity Tier 1" ("CET1") measure, (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the Capital Rules, the minimum capital ratios effective as of January 1, 2015 are:

• 4.5% CET1 to risk-weighted assets;
• 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
• 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
• 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the leverage ratio").

The Capital Rules also include a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The Capital Rules also provide for a "countercyclical capital buffer" that is only applicable to certain covered institutions and does not have any current applicability to the Company or the Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Since fully phased in on January 1, 2019, the Capital Rules require the Bank to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of Total capital to risk-weighted assets of at least 10.5%; and (iv) a minimum leverage ratio of 4%. The Capital Rules also provide for a number of deductions from and adjustments to CET1.

The Capital Rules prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules 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 September 2017, the Federal Reserve Board, along with other bank regulatory agencies, proposed amendments to its capital requirements to simplify certain aspects of the capital rules for community banks, including the Bank, in an attempt to reduce the regulatory burden for such smaller financial institutions. Because the amendments were proposed with a request for comments and have not been finalized, we do not yet know what effect the final rules will have on the Bank's capital calculations. In November 2017, the federal banking agencies extended for community banks the existing capital requirements for certain items, including mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest, which were scheduled to change effective January 1, 2018, in light of the simplification amendments being considered.

In June 2016, the Financial Accounting Standards Board issued an update to the accounting standards for credit losses that included the Current Expected Credit Losses ("CECL") methodology, which replaces the existing incurred loss methodology for certain financial assets. CECL becomes effective January 1, 2020. In December 2018, the federal bank regulatory agencies approved a final rule providing an option to phase-in, over a period of three years, the day-one regulatory capital effects resulting from the implementation of CECL.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the "EGRRCPA") was enacted, which repeals or modifies certain provisions of the Dodd-Frank Act and eases regulations on all but the largest banks. These modifications include, among other changes: (i) exempting banks with less than $10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) not require appraisals for certain transactions valued at less than $400,000 in rural areas; (iii) exempt banks that originate fewer than 500 open-end and 500 closed-end mortgages from the Home Mortgage Disclosure Act's expanded data disclosures; (iv) clarify that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the FDIC's brokered-deposit regulations; (v) raise eligibility for the 18-month exam cycle from $1 billion to banks with $3 billion in assets; and (vi) simplify capital calculations by requiring regulators to establish for institutions under $10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that upon the election of a bank would replace the risk-based capital requirements. In addition, the Federal Reserve Board was required to raise the asset threshold under its Small Bank Holding Company Policy Statement from $1 billion to $3 billion for bank holding companies that are exempt from consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities.

Notwithstanding the foregoing, the EGRRCPA simplifies capital calculations by requiring regulators to establish for insured depository institutions under $10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements under the Capital Rules. Such institutions that meet the community bank leverage ratio will automatically be deemed to be well-capitalized, although the regulators retain the flexibility to determine that the institution may not qualify for the community bank leverage ratio test based on the institution's risk profile. The federal banking agencies have proposed a community bank leverage ratio of 9% with additional parameters, including limited amounts of off-balanced sheet exposure. That proposal has not been finalized, and until such time, the Capital Rules as described above remain in effect. The effective date and specific requirements for the community bank leverage ratio are unknown.

## 3. NEW AUTHORITATIVE ACCOUNTING GUIDANCE

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The amendments in ASU 2014-09 supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance and creates a single source of revenue guidance companies in all industries and is more principles-based than previous revenue guidance. The general principle of the amendments require an entity to recognize revenue upon 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 pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are, (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. ASU No. 2014-09 is effective for the Company starting January 1, 2019. Implementation of the provisions of ASU 2014-09 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments—(Subtopic 825-10)*: *Recognition and Measurement of Financial Assets and Financial Liabilities.*" ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for the Company starting January 1, 2019. Early application is permitted as of the beginning of the fiscal year of adoption only for provisions (3) and (6) above. The Company early adopted provision (3) as presented at Note 22 of the Consolidated Financial Statements. Implementation of the remaining provisions of ASU 2016-01 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, "*Leases (Topic 842).*" Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): (1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities.

ASU 2016-02 is effective for the Company starting January 1, 2020; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company continues to evaluate the provisions of ASU 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments (Topic 326).*" This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for the Company starting January 1, 2022; early adoption is permitted for interim and annual reporting periods beginning after January 1, 2019. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's consolidated financial statements.

## 4. CONSENT ORDER TERMINATION

CFG Community Bank entered into a Consent Order with the Reserve Bank and the Commissioner on October 31, 2011. The Consent Order required improvements to the operations of the Bank including, but not limited to, maintaining adequate capital and liquidity, improving management oversight, improving credit risk management, improving internal controls, compliance with banking laws and improving analysis of the adequacy of the allowance for loan losses. The Bank was prohibited from paying cash dividends without prior approval from the regulators. On August 8, 2018, the Board of Governors of the Federal Reserve System terminated the Consent Order. The Commissioner terminated the Consent Order on August 9, 2018. Accordingly, due to this lifting of the Consent Order, prior approval from the regulators is no longer required prior to payment of cash dividends.

## 5. CASH AND CASH EQUIVALENTS

The Bank carries a balance with the Federal Reserve Bank for operating and liquidity purposes. The average balance outstanding was $75.2 million and $45.1 million for 2018 and 2017, respectively.

The Bank normally carries balances with other banks that can exceed the federally insured limit. There were outstanding average balances that exceeded this limit by $4.2 million and $4.3 million for 2018 and 2017, respectively. Banks are required to carry cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with the Federal Reserve Bank are sufficient to satisfy the cash reserve requirements.

## 6. INVESTMENT SECURITIES

At December 31, 2018, the fair value of available-for-sale securities, consisting of U.S. Treasury securities, had a fair value of $1.0 million which approximated its carrying value. At December 31, 2017, the fair value of available-for-sale securities, consisting of U.S. Treasury securities, had a fair value of $2.5 million which approximated its carrying value.

At December 31, 2018, securities held-to-maturity, consisting of U.S. Government agency notes, had a carrying value of $2.3 million, unrealized losses of $0.1 million, and a fair value of $2.2 million. At December 31, 2017, securities held-to-maturity, consisting of U.S. Government agency notes, had a carrying value of $2.4 million which approximated its fair value.

At December 31, 2018 and 2017, U.S. Treasury securities with a carrying value of approximately $1.0 million and $2.5 million respectively, were pledged as collateral for sales of securities under repurchase agreements.

There were no unrealized losses on available-for-sale securities for the years ended December 31, 2018 and 2017. Any unrealized losses recorded by the Company are the result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings only when (1) the Company intends to sell the debt security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders’ equity as a component of other comprehensive income, net of deferred tax.

As of December 31, 2018, investments mature as follows:

| ($000's) | Available-for-sale | | Held-to-Maturity | |
|---|---|---|---|---|
| ***Maturing*** | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 999 | $ 999 | $ - | $ - |
| Due from one to five years | - | - | - | - |
| Due in over five years | - | - | 2,331 | 2,245 |
| | $ 999 | $ 999 | $ 2,331 | $ 2,245 |

**7. RESTRICTED STOCK**

Restricted stock consists of the following at December 31:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Federal Home Loan Bank of Atlanta | $ 616 | $ 3,020 |
| Federal Reserve Bank | 2,117 | 2,117 |
| Atlantic Central Banker's Bank | 30 | 30 |
| Maryland Financial Bank | - | 30 |
| | $ 2,763 | $ 5,197 |

**8. LOANS AND LEASES**

**A. Loan and Lease Portfolio Segments**

Loans and leases consist of the following at December 31:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Commercial and industrial | $ 217,756 | $ 138,318 |
| Real estate - residential | 13,189 | 15,311 |
| Real estate - commercial | 400,643 | 371,059 |
| Construction - residential & commercial | 47,190 | 33,993 |
| Home equity | 8,174 | 10,425 |
| Land and land development | 2,659 | 11,639 |
| Commercial leases | 7,934 | 3,401 |
| Consumer | 1,011 | 1,214 |
| | 698,556 | 585,360 |
| Deferred loan origination fees, net of cost | (2,436) | (1,921) |
| Allowance for loan and lease losses | (15,619) | (13,714) |
| Net Loans and Leases | $ 680,501 | $ 569,725 |

**B. Loan Maturity Distribution**

The following table presents the maturities of our loan portfolio at December 31, 2018 and 2017:

**Loan Maturity Distribution at December 31, 2018**

| ($000's) | 1 year or less | 1 - 5 years | After 5 years | Total |
|---|---|---|---|---|
| Commercial and industrial | $ 61,944 | $ 114,838 | $ 40,974 | $ 217,756 |
| Real estate - residential | 2,369 | 4,768 | 6,052 | 13,189 |
| Real estate - commercial | 86,276 | 210,728 | 103,639 | 400,643 |
| Construction | 43,808 | - | 3,382 | 47,190 |
| Home equity | 93 | 485 | 7,596 | 8,174 |
| Land and land development | 2,138 | - | 521 | 2,659 |
| Commercial leases | 61 | 7,873 | - | 7,934 |
| Consumer | - | 155 | 856 | 1,011 |
| Total loans | $ 196,689 | $ 338,847 | $ 163,020 | $ 698,556 |
| Fixed rate | $ 58,498 | $ 99,718 | $ 58,598 | $ 216,814 |
| Variable rate | 138,191 | 239,129 | 104,422 | 481,742 |
| Total loans | $ 196,689 | $ 338,847 | $ 163,020 | $ 698,556 |

**Loan Maturity Distribution at December 31, 2017**

| ($000's) | 1 year or less | 1 - 5 years | After 5 years | Total |
|---|---|---|---|---|
| Commercial and industrial | $ 31,959 | $ 72,404 | $ 33,955 | $ 138,318 |
| Real estate - residential | 3,726 | 5,360 | 6,225 | 15,311 |
| Real estate - commercial | 92,578 | 163,571 | 114,910 | 371,059 |
| Construction | 14,500 | - | 19,493 | 33,993 |
| Home equity | 708 | 330 | 9,387 | 10,425 |
| Land and land development | 3,238 | 4,989 | 3,412 | 11,639 |
| Commercial leases | 560 | 2,841 | - | 3,401 |
| Consumer | 133 | - | 1,081 | 1,214 |
| Total loans | $ 147,402 | $ 249,495 | $ 188,463 | $ 585,360 |
| Fixed rate | $ 35,044 | $ 89,261 | $ 93,641 | $ 217,946 |
| Variable rate | 112,358 | 160,234 | 94,822 | 367,414 |
| Total loans | $ 147,402 | $ 249,495 | $ 188,463 | $ 585,360 |

**C. Allowance for Loan and Lease Losses & Recorded Investment in Loans and Leases**

The following tables show the allowance for loan losses and recorded investment in loans and leases for the year ended December 31, 2018:

| ($000's) | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Allowance for loan and lease losses: | | | | |
| Beginning balance, December 31, 2017 | $ 648 | $ 9,714 | $ 3,352 | $ 13,714 |
| Provisions | (3) | 358 | 1,662 | 2,017 |
| Charge-offs | (540) | (9) | - | (549) |
| Recoveries | 397 | 3 | 37 | 437 |
| Ending balance, December 31, 2018 | $ 502 | $ 10,066 | $ 5,051 | $ 15,619 |

| ($000's) Allowance for loan and lease losses: | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Ending balance: individually evaluated for impairment | $ - | $ 37 | $ - | $ 37 |
| Ending balance: collectively evaluated for impairment | 502 | 10,029 | 5,051 | 15,582 |
| Ending balance, December 31, 2018 | $ 502 | $ 10,066 | $ 5,051 | $ 15,619 |

| ($000's) | | | | |
|---|---|---|---|---|
| Loans: | | | | |
| As of December 31, 2018 | | | | |
| Loans receivable: | | | | |
| Ending balance: individually evaluated for impairment | $ 280 | $ 9,236 | $ 3,413 | $ 12,929 |
| Ending balance: collectively evaluated for impairment | 22,094 | 441,256 | 222,277 | 685,627 |
| Ending balance | $ 22,374 | $ 450,492 | $ 225,690 | $ 698,556 |

The following tables show the allowance for loan losses and recorded investment in loans and leases for the year ended December 31, 2017:

| ($000's) | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Allowance for loan and lease losses: | | | | |
| Beginning balance, December 31, 2016 | $ 660 | $ 3,997 | $ 4,324 | $ 8,981 |
| Provisions | 25 | 5,695 | (349) | 5,371 |
| Charge-offs | (498) | - | (927) | (1,425) |
| Recoveries | 461 | 22 | 304 | 787 |
| Ending balance, December 31, 2017 | $ 648 | $ 9,714 | $ 3,352 | $ 13,714 |

| ($000's) Allowance for loan and lease losses: | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Ending balance: individually evaluated for impairment | $ 106 | $ 1,348 | $ 463 | $ 1,917 |
| Ending balance: collectively evaluated for impairment | 542 | 8,366 | 2,889 | 11,797 |
| Ending balance, December 31, 2017 | $ 648 | $ 9,714 | $ 3,352 | $ 13,714 |

| ($000's) Loans: | | | | |
|---|---|---|---|---|
| As of December 31, 2017 | | | | |
| Loans receivable: | | | | |
| Ending balance: individually evaluated for impairment | $ 772 | $ 12,660 | $ 2,183 | $ 15,615 |
| Ending balance: collectively evaluated for impairment | 26,178 | 404,031 | 139,536 | 569,745 |
| Ending balance | $ 26,950 | $ 416,691 | $ 141,719 | $ 585,360 |

## D. Credit Quality Indicators

In 2017, management used an eight point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first four categories were considered not criticized, and were aggregated as “Pass” rated. The Special Mention category (risk rating - 5) included assets that were currently protected but were potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the Substandard category (risk rating - 6) had well-defined weaknesses that jeopardize the liquidation of the debt, may be on non-accrual, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Loans greater than 90 days past due were considered substandard. Loans in the Doubtful category (risk rating - 7) were on non-accrual and have a definite loss of an undetermined amount. The portion of any loan that represents a specific allocation of the allowance for loan losses was placed in the Loss category (risk rating - 8).

In 2018, management changed its internal risk rating system to have nine categories to better monitor the credit quality of the overall loan portfolio. The first five categories were considered not criticized, with risk ratings 1 - 4 aggregated as “Pass” rated plus the addition of a new Pass/Watch category (risk rating - 5). The Special Mention category (risk rating - 6) includes assets that were currently protected but were potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the Substandard category (risk rating - 7) have well-defined weaknesses that jeopardize the liquidation of the debt, may be on non-accrual, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Loans greater than 90 days past due were considered substandard. Loans in the Doubtful category (risk rating - 8) are on non-accrual and have a definite loss of an undetermined amount. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Loss category (risk rating - 9).

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential loans are included in the categories unless a specific action, such as a delinquency, bankruptcy, repossession or death occurs to raise awareness of a possible credit event. The Bank's commercial loan officers are responsible for timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Commercial loans, commercial real estate loans, residential loans, consumer loans and leases that are greater than 30 days past due are individually reviewed on a monthly basis and reported to the board of directors. In addition, all commercial loans, commercial real estate loans, residential loans, consumer loans and leases rated 5 through 8 are evaluated with a detailed review, including plans for resolution, and present to the Watch Committee quarterly. Loans in the substandard and doubtful categories are evaluated for impairment and are given separate consideration in the determination of the allowance. The Bank's outsourced loan review function conducts random loan sampling and portfolio reviews to determine the accuracy of risk ratings in the commercial and commercial real estate portfolios with an emphasis on loans over $500,000, concentrations, criticized assets, non-performing and Regulation O loans. The Bank makes non-healthcare related loans and leases to customers primarily in Maryland and the surrounding region. The Bank makes healthcare related loans to customers located nationally.

Credit Quality indicators as of December 31, 2018 are as follows:

| ($000's)<br>Credit Risk Profile by Internally Assigned Grade | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Pass (risk rating 1 - 4) | $ 15,715 | $ 350,675 | $ 152,754 | $ 519,144 |
| Pass/Watch (risk rating - 5) | 5,926 | 63,243 | 61,278 | 130,447 |
| Special Mention (risk rating - 6) | 296 | 19,924 | 7,417 | 27,637 |
| Substandard (risk rating - 7) | 437 | 16,650 | 4,241 | 21,328 |
| Total | $ 22,374 | $ 450,492 | $ 225,690 | $ 698,556 |

Credit Quality indicators as of December 31, 2017 are as follows:

| ($000's)<br>Credit Risk Profile by Internally Assigned Grade | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Pass (risk rating 1 - 4) | $ 19,584 | $ 312,612 | $ 93,895 | $ 426,091 |
| Special Mention (risk rating - 5) | 6,375 | 71,580 | 37,374 | 115,329 |
| Substandard (risk rating - 6) | 895 | 32,499 | 10,450 | 43,844 |
| Doubtful (risk rating 7) | 96 | - | - | 96 |
| Total | $ 26,950 | $ 416,691 | $ 141,719 | $ 585,360 |

**E.  Loan Aging Analysis**

Age analysis tables of past due loans and leases as of December 31, 2018 are as follows:

| ($000's) | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| 30 - 59 Days Past Due & Accruing | $ 1,150 | $ - | $ - | $ 1,150 |
| 60 - 89 Days Past Due & Accruing | 229 | - | 1,144 | 1,373 |
| 90 or More Days Past Due & Accruing | 28 | - | - | 28 |
| Total Past Due & Accruing | $ 1,407 | $ - | $ 1,144 | $ 2,551 |
| Current | 20,573 | 442,329 | 221,133 | 684,035 |
| Non-Accruing Loans | 394 | 8,163 | 3,413 | 11,970 |
| Total | $ 22,374 | $ 450,492 | $ 225,690 | $ 698,556 |

Age analysis tables of past due loans and leases as of December 31, 2017 are as follows:

| ($000's) | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| 30 - 59 Days Past Due & Accruing | $ 457 | $ - | $ - | $ 457 |
| 60 - 89 Days Past Due & Accruing | 372 | - | - | 372 |
| 90 or More Days Past Due & Accruing | 2 | - | - | 2 |
| Total Past Due & Accruing | $ 831 | $ - | $ - | $ 831 |
| Current | 25,259 | 406,212 | 139,536 | 571,007 |
| Non-Accruing Loans | 860 | 10,479 | 2,183 | 13,522 |
| Total | $ 26,950 | $ 416,691 | $ 141,719 | $ 585,360 |

## F. Impaired Loans

The following table sets forth information with respect to the Bank's impaired loans as of December 31, 2018.

| ($000's) | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Total Impaired Loans | $ 280 | $ 9,236 | $ 3,413 | $ 12,929 |
| Total Impaired loans with a Specific Reserve | $ - | $ 397 | $ - | $ 397 |
| Allowance | $ - | $ 37 | $ - | $ 37 |
| Total Impaired loans without a Specific Reserve | $ 280 | $ 8,839 | $ 3,413 | $ 12,532 |
| Unpaid principal balance in total impaired loans | $ 398 | $ 9,245 | $ 3,413 | $ 13,056 |
| Average impaired loans for the period | $ 9,011 | $ 6,420 | $ 1,094 | $ 16,525 |
| Interest income recognized on impaired loans during the year | $ 4 | $ 188 | $ 21 | $ 213 |

The following table sets forth information with respect to the Bank's impaired loans as of December 31, 2017.

| ($000's) | Residential/ Consumer | Commercial Real Estate | Commercial and Industrial | Total |
|---|---|---|---|---|
| Total Impaired Loans | $ 772 | $ 12,660 | $ 2,183 | $ 15,615 |
| Total Impaired loans with a Specific Reserve | $ 313 | $ 8,444 | $ 2,183 | $ 10,940 |
| Allowance | $ 106 | $ 1,348 | $ 463 | $ 1,917 |
| Total Impaired loans without a Specific Reserve | $ 459 | $ 4,216 | $ - | $ 4,675 |
| Unpaid principal balance in total impaired loans | $ 926 | $ 12,660 | $ 2,183 | $ 15,769 |
| Average impaired loans for the period | $ 1,231 | $ 18,339 | $ 5,000 | $ 24,570 |
| Interest income recognized on impaired loans during the year | $ 30 | $ 915 | $ 31 | $ 976 |

**G. Troubled Debt Restructurings & Nonperforming Assets**

Management reviews and identifies loans and investments that require designation as non-performing assets and troubled debt restructurings. Nonperforming assets include loans accounted for on a non-accrual basis, troubled debt restructurings ("TDRs"), loans past due by 90 days or more but still accruing, and foreclosed real estate. TDRs include loans in which the borrower was having financial difficulty, and the Company agreed to grant a concession and modify the loan.

There was one new TDR during the year ended December 31, 2018, which was a CRE loan with a pre-modification balance of approximately $2.7 million.

There were three CRE loans and a HELOC with a combined pre-modification balance of approximately $8.7 million that were modified as a new TDR during 2017. At December 31, 2018, these TDR loans had a combined balance of $4.0 million.

There were no loans modified as a TDR during the previous 12 months that were in default of their modified terms at December 31, 2018 and 2017. There were no outstanding loan commitments to lend to debtors classified as TDRs at December 31, 2018 and 2017.

At December 31, 2018, there were no consumer mortgage loans secured by residential real estate where formal foreclosure proceedings were in process. At December 31, 2017, there were consumer mortgage loans secured by residential real estate where formal foreclosure proceedings that were in process with a balance of approximately $0.4 million.

Information with respect to non-performing loans, non-performing assets, and TDRs at December 31, 2018 and 2017 is as follows:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Non-Accrual Loans (including TDRs) | $ 11,970 | $ 13,522 |
| TDRs that are accruing | 1,244 | 2,320 |
| Loans 90 or more days past due & accruing | 28 | 2 |
| Total Non-performing Loans | 13,242 | 15,844 |
| Foreclosed real estate | 133 | - |
| Total Non-performing Assets | $ 13,375 | $ 15,844 |
| TDRs included in Non-Accrual Loans | $ 5,441 | $ 8,011 |
| TDRs that are accruing | 1,244 | 2,320 |
| Total TDRs | $ 6,685 | $ 10,331 |

**9. CREDIT COMMITMENTS**

Outstanding unused lines of credit and letters of credit were as follows at December 31:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Unused lines of credit: | | |
| Residential/Consumer | $ 6,718 | $ 5,051 |
| Commercial Real Estate | 58,082 | 36,369 |
| Commercial and Industrial | 68,769 | 39,934 |
| | $ 133,569 | $ 81,354 |
| Letters of Credit | $ 8,087 | $ 7,902 |

The Bank's maximum exposure to credit loss in the event of non-performance by the customer is the contractual amount of the credit commitment. Lines of credit and letters of credit are made on the same terms, including collateral, as outstanding loans.

**10. RELATED PARTY TRANSACTIONS**

Executive officers, directors, and affiliates of the Bank are deemed related parties and may enter into loan and deposit transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. Activity in related party loans during 2018 and 2017 were as follows:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Balance, beginning of year | $ - | $ 500 |
| Advances | 11,205 | 2,874 |
| Principal repayments | (2,402) | (2,874) |
| Reclassification | - | (500) |
| Balance, end of year | $ 8,803 | $ - |

Deposits held by the Bank for related parties totaled $34.2 million and $18.6 million at December 31, 2018 and 2017, respectively.

The Company shares employee salary and overhead expenses with an affiliate, Capital Funding Group, Inc. Expenses paid for Company employees and common overhead expenses that benefit this affiliate are charged back and recorded in contra expense accounts within noninterest expenses. Total combined salary and overhead chargebacks to this affiliate in 2018 and 2017 were $0.4 million and $0.3 million, respectively. The Company also leases office space for its corporate headquarters from Capital Funding Group, Inc. Total rent paid to this affiliate in 2018 and 2017 was approximately $1.2 million for each year. See further discussion at Note 18.

## 11. PREMISES AND EQUIPMENT

A summary of premises and equipment and the related depreciation follows:

| ($000's) | Useful Lives | 2018 | 2017 |
|---|---|---|---|
| Furniture and equipment | 3 - 10 years | $ 3,656 | $ 3,469 |
| Equipment held for lease | 5 - 10 years | 5,865 | 7,258 |
| Leasehold improvements | 5 - 40 years | 1,301 | 1,288 |
| | | 10,822 | 12,015 |
| Accumulated depreciation | | (5,528) | (6,006) |
| Net premises and equipment | | $ 5,294 | $ 6,009 |
| Depreciation expense | | $ 579 | $ 800 |

## 12. GOODWILL

The entire amount of goodwill was recorded as a result of the acquisition of AmericasBank Corp, Inc in 2009. There were no adjustments to goodwill during the periods ended December 31, 2018 and 2017. Per Accounting Standards Update ("ASU") 2011-08: Intangibles – Goodwill and Other (Topic 350), the Bank is required to perform an annual goodwill impairment test. For purposes of this analysis, the Bank is comprised of a single reporting unit. Given the Bank has experienced significant consistent growth over the past several years, while maintaining higher than average earnings, return on equity, and return on assets when compared to its peers, per the ASU guidance, management has elected to perform a "Step 0 Test." Qualitative factors were reviewed to determine whether the existence of events or circumstances during the prior twelve months could lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events/circumstances during the year, noting no significant adverse changes from prior year, management determined that is more likely than not that the fair value of the reporting unit is in excess of the carrying amount as of December 31, 2018 and 2017.

## 13. MORTGAGE SERVICING RIGHTS

Mortgage servicing rights are complex, intangible assets that arise from owning the rights to service mortgage loans that have been securitized or sold to third-party investors. The market value of MSRs is affected by market supply and demand factors. MSR values are economically represented as the discounted present value of estimated future net cash flows over the life of the underlying mortgage loans.

Changes in the fair value of MSRs are reflected below:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Fair value - beginning of period | $ 33,938 | $ 32,397 |
| Additions of fair value as result of new loans | 5,774 | 4,126 |
| Reduction in fair value of cash flows | (1,143) | (2,585) |
| Valuation of mortgage servicing rights | 4,631 | 1,541 |
| Fair value at December 31, | $ 38,569 | $ 33,938 |

The fair value of MSRs is estimated by a third party using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, servicing rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions.

The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. Assumptions are used that may reflect some prediction of future rate environments to temper the effects of current market biases on a short-term for something generally expected over a longer term. However, the assumptions, once selected and calibrated for market observation, remain unchanged for the model. The current mortgage interest rate influences the expected prepayment rate and therefore the length of the cash flows associated with servicing the asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are estimated.

The key economic assumptions used in determining the fair value of MSRs at year end were as follows:

| | 2018 | 2017 |
|---|---|---|
| Weighted - average life (in years) | 26.8 | 26.8 |
| Weighted - average constant prepayment rate (CPR) | 3.63% | 5.02% |
| Weighted - average discount rate | 10.000% | 8.049% |
| Weighted - average note rate | 3.844% | 3.777% |

As of December 31, 2018 and 2017, the portfolio of serviced loans that financed skilled nursing and assisted living facilities amounted to approximately $3.0 billion and $2.6 billion, respectively. As of December 31, 2018 and 2017, this servicing portfolio consisted of 461 and 421 loans, respectively, with an average unpaid principal balance of $6.5 million and $6.2 million, respectively.

## 14. INTEREST-BEARING DEPOSITS

Major classifications of interest-bearing deposits are as follows:

| ($000's) | 2018 | 2017 |
|---|---|---|
| NOW accounts | $ 2,092 | $ 2,326 |
| Money market | 178,373 | 163,540 |
| Savings | 9,228 | 2,123 |
| Certificates of deposit, $250,000 or more | 48,569 | 31,707 |
| Other certificates of deposit | 274,558 | 182,175 |
| | $ 512,820 | $ 381,871 |

At December 31, 2018, certificates of deposit mature as follows:

| ($000's) | |
|---|---|
| Maturing in one year or less | $ 200,367 |
| Maturing over one through two years | 89,764 |
| Maturing over two through three years | 22,432 |
| Maturing over three through four years | 1,801 |
| Maturing over four through five years | 8,763 |
| | $ 323,127 |

## 15. ADVANCES FROM FEDERAL HOME LOAN BANK

The Company has a secured line of credit with the FHLB with a borrowing limit set at 30% of Bank assets subject to collateral. The Bank is required to maintain as collateral for its FHLB borrowings qualified commercial real estate loans in an amount greater than 100% of the outstanding balance. Lendable collateral totaled $99.4 million and $92.2 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the outstanding FHLB advances were $1.0 million and $57.0 million, respectively.

Additional information is as follows:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Maximum month-end amount outstanding | $ 91,000 | $ 77,000 |
| Average amount outstanding | 30,403 | 30,592 |
| Average rate paid during the period | 1.87% | 1.11% |

The Bank has an available secured line of credit of $4.0 million from a correspondent bank. The Bank has five available unsecured lines of credit totaling $53.0 million from other correspondent banks. In addition, the Bank has an available secured line of credit of $30 million from the Federal Reserve Discount Window that is collateralized by qualifying commercial and industrial loans. The average combined average balance outstanding for theses available lines of credit were $0 in 2018 and 2017.

## 16. NOTES PAYABLE

On February 23, 2017, the Company completed a private placement of $35 million in subordinated notes (the "2017 subordinated notes"). The Company contributed approximately $30 million of the proceeds received in this transaction to the Bank which qualified as Tier I capital for the Bank under the Basel III Rule capital requirements.

The 2017 subordinated notes have a fixed-to-floating interest rate with a term of 10 years maturing on March 1, 2027. From February 23, 2017 to but excluding March 1, 2022, interest on the subordinated notes is 7.50% fixed per annum, payable semi-annually in arrears. From and including March 1, 2022 to the maturity date or early redemption date, the interest rate will reset quarterly to a floating interest rate per annum equal to the then current three-month LIBOR rate plus 560 basis points, payable quarterly in arrears. Interest on the 2017 subordinated notes is payable semi-annually on March 1 and September 1 of each year through March 1, 2022, and thereafter on March 1, June 1, September 1, and December 1 of each year through the maturity date or early redemption date.

At December 31, 2018 and 2017, the balance of unamortized debt issuance costs for the 2017 subordinated notes was $1.0 million and $1.1 million, respectively.

On November 19, 2018, the Company completed a private placement of $25 million in senior unsecured notes (the "2018 senior notes") and $15 million in subordinated notes (the "2018 subordinated notes"). The Company contributed approximately $38 million of the combined proceeds received in these transactions to the Bank which qualified as Tier I capital for the Bank under the Basel III Rule capital requirements.

The 2018 senior notes have a fixed interest rate of 6.00% per annum with a term of 5 years maturing on December 1, 2023. Interest on the 2018 senior notes is payable semi-annually in arrears on June 1 and December 1 of each year. The 2018 senior notes rank senior in right of payment to any current or future indebtness that is subordinated to the 2018 senior notes.

The 2018 subordinated notes have a fixed-to-floating rate with a term of 10 years maturing on Dec 1, 2028. From November 19, 2018 to but excluding December 1, 2023, interest on the 2018 subordinated notes is 6.75% fixed per annum, payable semi-annually in arrears. From and including December 1, 2023 to the maturity date or early redemption date, the interest rate will reset quarterly to a floating interest rate per annum equal to the then current three-month LIBOR rate plus 354.5 basis points, payable quarterly in arrears. Interest on the 2018 subordinated notes will be payable semi-annually on June 1 and December 1 of each year through December 1, 2023, and thereafter on March 1, June 1, September 1, and December 1 of each year through the maturity date or early redemption date.

At December 31, 2018, the balance of unamortized debt issuance costs for the 2018 senior notes and the 2018 subordinated notes was $0.8 million and $0.5 million, respectively.

## 17. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase represent overnight borrowings from customers. The U.S. Treasury securities that are the collateral for these agreements are owned by the Bank and maintained in the custody of a non-affiliated agent designated by the Bank. Additional information is as follows:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Maximum month-end amount outstanding | $ 803 | $ 1,915 |
| Average amount outstanding | 385 | 1,241 |
| Balance at December 31, | 486 | 488 |
| Average rate paid during the period | 0.05% | 0.05% |
| Rate paid at December 31, | 0.05% | 0.05% |

## 18. LEASES

CFG Community Bank occupies its Fells Point location at 1615 Thames Street, Baltimore, MD 21231, under the terms of a lease dated June 13, 2012 for office space to be occupied by its Fells Point branch banking center. The lease commenced on September 1, 2012. The lease has an original term of ten years with two options to renew for five years each.

On December 16, 2011, the Bank entered into a lease located at 11 West Ridgely Road, Lutherville, MD 21093, for office space to be occupied by its Lutherville branch banking center. The lease commenced on January 1, 2012. The lease has an original term of 15 years with an option to renew for two consecutive five year terms.

On May 3, 2007, the Bank entered into a lease located at 1419 Forest Drive, Suite 10, Annapolis, MD, 21403 for office space to be occupied by its Annapolis branch banking center. In September 2017, the Annapolis branch at this location was relocated to office space also leased by the Company located at 888 Bestgate Road, Suite 212, Annapolis, MD 21401. As part of this relocation, the Annapolis branch became a limited service branch banking location. Effective January 1, 2018, the lease for the previous Annapolis branch at 1419 Forest Drive was terminated.

On July 11, 2014 the Bank entered into a lease located at 888 Bestgate Road, Suite 212, Annapolis, MD, for a new loan production office. The lease commenced on January 1, 2015 and has an initial term of five years with an option to renew for a five year term. As mentioned above, this office space now also houses the Annapolis branch banking center that was relocated in September 2017.

On June 18, 2009, the Company entered into a lease agreement in Baltimore, Maryland for office space to be occupied by the Corporate Headquarters including the lending, operations and administrative functions of the Company and the Bank. The lease commenced on June 18, 2009 and had an original term of five years with three options to renew for five years. The original lease ended on June 18, 2014 and was amended to extend the lease for a one year term commencing August 27, 2014 and ending August 27, 2015. Effective August 28, 2015 and thereafter, the Company agreed to rent the building on a month to month basis in accordance with terms per the original lease agreement. The lease is with Capital Funding Group, Inc., an affiliate of the Company.

The leases call for the following minimum payments (in $000's):

| Year | | |
|---|---|---|
| 2019 | $ | 245 |
| 2020 | | 156 |
| 2021 | | 161 |
| 2022 | | 152 |
| 2023 | | 129 |
| Thereafter | | 410 |
| | $ | 1,253 |

Rent expense was $1.5 million for the years ended December 31, 2018 and 2017.

## 19. OTHER NON-INTEREST EXPENSES

A summary of other non-interest expenses follows:

| ($000's) | 2018 | 2017 |
|---|---|---|
| Other professional fees | $ 883 | $ 668 |
| Business development | 188 | 90 |
| Liability insurance | 192 | 204 |
| Telephone | 193 | 194 |
| Software | 334 | 273 |
| Stationary, printing, and supplies | 129 | 113 |
| GNMA and HUD expenses | 144 | 81 |
| Postage and courier | 55 | 54 |
| Correspondent bank charges | 39 | 36 |
| State assessment and sales tax | 81 | 69 |
| Subscriptions and publications | 61 | 41 |
| Debt issuance expense | 146 | 101 |
| Other expenses, net of contra overhead | 92 | (39) |
| | $ 2,537 | $ 1,885 |

## 20. EMPLOYEE BENEFIT PLANS

The Company offers a 401(k) plan to its employees. The 401(k) plan’s attributes include eligibility after 12 months of service, an employer matching contribution of 100% up to 3% of employee salary contributed and 50% for the next 2% of employee salary contributed, and a vesting of 100% after the first year of service. Beginning in 2018, the 401(k) plan was amended so that any Company employee hired on or after January 1, 2018 is eligible to enroll in the 401(k) plan as of January 1, 2019, or on the first of the month following 90 days of eligible employment, whichever is later. The Company contributed approximately $0.4 million to this plan in both 2018 and 2017.

## 21. CAPITAL STANDARDS

The Federal Reserve Board and The Federal Deposit Insurance Corporation have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. Common equity tier 1 ("CET1") capital consists of common stock, additional paid-in capital, and accumulated deficit less goodwill and disallowed portion of MSR's. Tier 1 capital is consistent with CET1 capital, as the Company and the Bank do not have any qualifying additional tier 1 capital. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off balance sheet items.

As discussed in Note 14, in 2018 and 2017, the Company contributed approximately $38 million and $30 million of the proceeds from issuance of notes, respectively, to the Bank which qualified as Tier I capital for the Bank under the Basel III Rule capital requirements. The capital ratios and minimum capital requirements for the Company and the Bank are as follows:

| ($000's) | Company Actual Amount | Company Actual Ratio | Bank Actual Amount | Bank Actual Ratio | Minimum Required Capital Adequacy* | To Be Well Capitalized** |
|---|---|---|---|---|---|---|
| **December 31, 2018** | | | | | | |
| Total capital (to risk-weighted assets) | $ 74,549 | 10.21% | $ 153,557 | 20.94% | 9.88% | 10.00% |
| Tier 1 capital (to risk-weighted assets) | 65,051 | 8.91% | 144,089 | 19.65% | 7.88% | 8.00% |
| CET1 capital (to risk-weighted assets) | 65,051 | 8.91% | 144,089 | 19.65% | 6.38% | 6.50% |
| Tier 1 capital (to average assets) | 65,051 | 7.93% | 144,089 | 17.46% | 4.00% | 5.00% |
| **December 31, 2017** | | | | | | |
| Total capital (to risk-weighted assets) | $ 75,632 | 12.62% | $ 110,359 | 18.37% | 9.25% | 10.00% |
| Tier 1 capital (to risk-weighted assets) | 67,813 | 11.31% | 102,554 | 17.07% | 7.25% | 8.00% |
| CET1 capital (to risk-weighted assets) | 67,813 | 11.31% | 102,554 | 17.07% | 5.75% | 6.50% |
| Tier 1 capital (to average assets) | 67,813 | 9.38% | 102,554 | 14.16% | 4.00% | 5.00% |

* Includes required phased-in Capital Conversation Buffer starting January 1, 2016 to avoid limits on capital distributions and discretionary bonuses. This requirement is phased in over three years and effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5% and the total capital to 10.5% on a fully phased-in basis beginning January 1, 2019.

**Applies to Bank only.

Failure to meet the capital requirements could affect the Company's ability to pay dividends and accept deposits and may significantly affect the operations of the Company and Bank. See Note 2 regarding the possibility of future dividend restrictions.

As of December 31, 2018 and 2017, the Bank met the regulatory requirements to be well capitalized. Management knows of no conditions that would change this classification.

## 22. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820, "Fair Value Measurements," clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC Topic, fair value measurements are not adjusted for transaction costs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

**Level 1** Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Level 2** Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by ASC 820, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy. The fair value of MSRs is classified within Level 2 of the fair value hierarchy and is estimated by a third party on a quarterly basis using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, servicing rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The fair value of forward loan sales commitments is also classified within Level 2 of the fair value hierarchy. The Company uses forward loan sales commitments for HUD loan sales to investors, which are considered derivatives. On a quarterly basis, for HUD loan transactions pending settlement, a fair value estimate for the outstanding forward loan sales commitments is recorded to other assets and current period earnings based on agreements between the Company and investors detailing contractual price and delivery dates of HUD insured mortgages to be sold.

Loans for which it is probable that payment of principal and interest will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, using the present value of expected cash flows, the loan's observable market price, or the fair value of collateral (less estimated selling costs) if the loan is collateral dependent. A specific allowance for loan loss is then established or a charge-off is recorded if the loan is collateral dependent and the loan is classified at a Level 3 in the fair value hierarchy. Appraised collateral values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the factors identified above. Valuation techniques are consistent with those applied in prior periods.

Foreclosed real estate is adjusted to fair value upon transfer of the loan to foreclosed real estate and is classified at a Level 3 in the fair value hierarchy. Subsequently, the foreclosed real estate is carried at the lower of carrying value or fair value. The estimated fair value for foreclosed real estate included in Level 3 is determined by independent market based appraisals and other available market information, less costs to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of foreclosed real estate deteriorates subsequent to the period of transfer, the foreclosed real estate is also classified at a Level 3 in the fair value hierarchy. Valuation techniques are consistent with those techniques applied in prior periods.

Assets measured at fair value on a recurring basis comprise the following asset classes:

| ($000's)<br>December 31, 2018 | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| U.S. government securities | $ 999 | $ - | $ 999 | $ - |
| Mortgage servicing rights | 38,569 | - | 38,569 | - |
| Forward loan sales commitments | 412 | | 412 | |

| ($000's)<br>December 31, 2017 | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| U.S. government securities | $ 2,499 | $ - | $ 2,499 | $ - |
| Mortgage servicing rights | 33,938 | - | 33,938 | - |
| Forward loan sales commitments | 250 | | 250 | |

Assets measured at fair value on a non-recurring basis comprise the following asset

| ($000's)<br>Impaired Loans[1]: | December 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Residential/Consumer | $ 541 | $ - | $ - | $ 541 |
| Commercial Real Estate | 400 | - | - | 400 |
| Commercial and Industrial | - | - | - | - |
| Foreclosed real estate | 133 | - | - | 133 |

| ($000's)<br>Impaired Loans[1]: | December 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Residential/Consumer | $ 428 | $ - | $ - | $ 428 |
| Commercial Real Estate | 7,095 | - | - | 7,095 |
| Commercial and Industrial | 1,720 | - | - | 1,720 |

[1] Impaired loans measured at fair value include loans with current period partial charge-offs or specific reserves.

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

| December 31, 2018: | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|
| Impaired Loans | Third party appraisal | Appraisal adjustments[1] | 10 - 25% |
| December 31, 2017: | | | |
| Impaired Loans | Third party appraisal | Appraisal adjustments[1] | 10 - 20% |

[1] Appraisals may be adjusted by management for qualitative factors such as property type, recent market condition, and estimated selling costs.

## 23. PARENT COMPANY FINANCIAL INFORMATION

The balance sheets as of December 31, 2018 and 2017, and statements of operations for the year then ended, for Capital Funding Bancorp, Inc. (Parent only) are presented below:

**Balance Sheets**

| December 31, | 2018 | 2017 |
|---|---|---|
| *Assets* | | |
| Cash | $ 831 | $ 2,572 |
| Investment in CFG Community Bank | 163,218 | 121,330 |
| Prepaid debt origination costs | 2,342 | 1,135 |
| Total Assets | $ 166,391 | $ 125,037 |
| *Liabilities and Stockholders' Equity* | | |
| Senior notes payable | $ 25,000 | $ - |
| Subordinated notes payable | 50,000 | 35,000 |
| Accrued interest payable | 1,356 | 875 |
| Total Liabilities | 76,356 | 35,875 |
| Stockholders' equity | | |
| Common stock | 70 | 70 |
| Additional paid-in capital | 41,632 | 41,631 |
| Accumulated earnings | 48,333 | 47,461 |
| Total Stockholders' Equity | 90,035 | 89,162 |
| Total Liabilities and Stockholders' Equity | $ 166,391 | $ 125,037 |

**Statements of Operations**

| | 2018 | 2017 |
|---|---|---|
| Interest income | $ - | $ - |
| Interest expense | | |
| Senior notes | 175 | - |
| Subordinated notes | 2,743 | 2,246 |
| Total interest expense | 2,918 | 2,246 |
| Net interest income | (2,918) | (2,246) |
| Noninterest expenses | | |
| Debt issuance amortization expense | 146 | 101 |
| Other expenses | 52 | 2 |
| Total noninterest expenses | 198 | 103 |
| Loss before undistributed net income of bank subsidiary | (3,116) | (2,349) |
| Equity in undistributed net income of bank subsidiary | 24,595 | 17,913 |
| Net income | $ 21,479 | $ 15,564 |

**Statements of Cash Flows**

| December 31, | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 21,479 | $ 15,564 |
| Adjustments to reconcile net income | | |
| Net increase in prepaid debt origination costs | (1,207) | (1,134) |
| Net increase in accrued interest payable | 481 | 875 |
| Equity in undistributed net income of subsidiary | (24,595) | (17,913) |
| Net cash used in operating activities | (3,842) | (2,608) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Dividends received from subsidiary | 20,707 | 8,795 |
| Equity investment in subsidiary | (38,000) | (29,874) |
| Net cash used in investing activities | (17,293) | (21,079) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid to stockholders | (20,607) | (8,795) |
| Issuance of notes payable | 40,000 | 35,000 |
| Issuance of common stock | 1 | 1 |
| Net cash provided by financing activities | 19,394 | 26,206 |
| Net (decrease) increase in cash and cash equivalents | (1,741) | 2,519 |
| Cash and cash equivalents at beginning of year | 2,572 | 53 |
| Cash and cash equivalents at end of year | $ 831 | $ 2,572 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | |
| Cash paid for interest | $ 2,437 | $ 1,371 |