CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

VERUS ACQUISITION GROUP, INC.
AND SUBSIDIARY

December 31, 2019 and 2018

FORTNER, BAYENS, LEVKULICH
▪
& GARRISON, P.C.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Verus Acquisition Group, Inc.
Fort Collins, Colorado

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Verus Acquisition Group, Inc. and Subsidiary which are comprised of the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Verus Acquisition Group, Inc. and Subsidiary at December 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Fortner, Bayens, Levkulich & Garrison, P.C.

Denver, Colorado
May 12, 2020

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(in thousands)	
ASSETS		
Cash and due from banks	$ 6,087	$ 5,363
Interest-bearing deposits with banks	11,588	14,382
Federal funds sold	2,431	510
Total cash and cash equivalents	20,106	20,255
Interest-bearing time deposits with banks	4,482	4,980
Nonmarketable equity securities	1,874	2,116
Loans	248,640	231,687
Less allowance for loan losses	(1,971)	(1,956)
Total loans	246,669	229,731
Premises and equipment, net	55	61
Accrued interest receivable	653	632
Core deposit intangible	11	29
Goodwill	733	733
Other assets	970	891
	$ 275,553	$ 259,428
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 70,150	$ 65,962
Interest-bearing	140,686	145,926
Total deposits	210,836	211,888
Short-term borrowings	19,000	2,600
Notes payable	5,000	6,600
Accrued interest payable	102	122
Other liabilities	5,792	3,432
Total liabilities	240,730	224,642
Commitments (notes C and H)		
Stockholders' equity		
Preferred stock - 9,740 shares authorized, no par value per share, no shares issued	-	-
Common stock - 5,000,000 shares authorized, no par value per share, 1,909,206 and 1,091,445 shares issued and outstanding at December 31, 2019 and 2018, respectively	24,671	10,259
Retained earnings	5,517	7,179
Total equity attributable to common stock	30,188	17,438
Noncontrolling interest	4,634	17,348
Total stockholders' equity	34,822	34,786
	$ 275,552	$ 259,428

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

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2019	2018
	(in thousands)	
Interest and dividend income		
Interest and fees on loans	$ 13,560	$ 12,518
Interest on federal funds sold	11	9
Interest-bearing deposits with banks	472	380
Dividends	106	124
Total interest and dividend income	14,149	13,031
Interest expense		
Deposits	2,410	1,401
Federal Home Loan Bank borrowings	503	601
Total interest expense	2,913	2,002
Net interest income	11,236	11,029
Provision for loan losses	-	-
Net interest income after provision for loan losses	11,236	11,029
Noninterest income		
Service charges on deposit accounts	549	464
Fees from servicing government guaranteed loans	2	4
Gain on sale of foreclosed real estate	254	72
Other	198	166
	1,003	706
Noninterest expenses		
Salaries and employee benefits	3,413	3,256
Occupancy and equipment	338	345
Core deposit amortization	18	30
Other expenses	1,279	1,187
	5,048	4,818
Income before income taxes	7,191	6,917
Income tax expense	2,021	1,902
Net income before noncontrolling interests	5,170	5,015
Less net income attributable to noncontrolling interests	2,689	2,771
NET INCOME	$ 2,481	$ 2,244

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

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2019 and 2018

	Common stock	Retained earnings	Total	Non-controlling interests	Total equity
Balance at December 31, 2017	$ 11,895	$ 5,154	$ 17,049	$ 16,959	$ 34,008
Repurchase of common stock	(1,636)	-	(1,636)	-	(1,636)
Comprehensive income					
Net income	-	2,244	2,244	2,771	5,015
Dividends declared on common stock	-	(219)	(219)	-	(219)
Dividends declared or paid to noncontrolling interests	-	-	-	(2,382)	(2,382)
Balance at December 31, 2018	10,259	7,179	17,438	17,348	34,786
Non-Compulsory Share Exchange - 829,641 shares	14,602	-	14,602	(14,602)	-
Redemption of fractional shares	-	-	-	(1)	(1)
Repurchase of common stock	(190)	-	(190)	-	(190)
Repurchase of minority interest common stock	-	-	-	(220)	(220)
Comprehensive income					
Net income	-	2,481	2,481	2,689	5,170
Dividends declared on common stock	-	(4,143)	(4,143)	-	(4,143)
Dividends declared or paid to noncontrolling interests	-	-	-	(580)	(580)
Balance at December 31, 2019	$ 24,671	$ 5,517	$ 30,188	$ 4,634	$ 34,822

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

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2019	2018
	(in thousands)	
Cash flows from operating activities		
Net income	$ 2,481	$ 2,244
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization	32	28
Core deposit amortization	18	29
Provision for loan losses	-	-
Federal Home Loan Bank stock dividends	(58)	(76)
Gain on sale of foreclosed real estate	(254)	(72)
Minority interest in subsidiary	2,689	2,771
Deferred income taxes	36	88
Net change in:		
Accrued interest receivable and other assets	(136)	44
Accrued interest payable and other liabilities	2,340	(1,404)
Net cash provided by operating activities	7,148	3,652
Cash flows from investing activities		
Net change in interest-bearing time deposits with banks	498	240
Purchase of nonmarketable equity securities	(1,936)	(1,788)
Redemptions on nonmarketable equity securities	2,236	1,615
Loan originations and principal collections, net	(16,938)	(8,481)
Expenditures for premises and equipment	(26)	(29)
Proceeds from the sale of foreclosed real estate	254	72
Net cash used by investing activities	(15,912)	(8,371)
Cash flows from financing activities		
Net change in deposits	(1,052)	25,921
Advances on notes payable	-	6,600
Payments on notes payable	(1,600)	-
Change in short-term borrowings	16,400	(21,000)
Repurchase of common stock	(411)	(1,636)
Cash dividends paid on common stock	(4,723)	(2,601)
Net cash provided by financing activities	8,614	7,284
Net change in cash and cash equivalents	(150)	2,565
Cash and cash equivalents at beginning of period	20,255	17,690
Cash and cash equivalents at end of period	$ 20,105	$ 20,255
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest expense	$ 2,933	$ 1,931
Income taxes	1,904	1,884

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting and reporting policies of Verus Acquisition Group, Inc. and Subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Principles of Consolidation

Verus Acquisition Group, Inc. (Verus) was incorporated on March 2, 2010 for the purpose of becoming a bank holding company, and it acquired 51% of Verus Bank of Commerce (Bank). The accompanying consolidated financial statements include the consolidated totals of the accounts of Verus and its subsidiary. The entities are collectively referred to as “the Company”

All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of banking and mortgage services to individual and corporate customers, principally in Larimer County, Colorado and the surrounding area. The Company is subject to competition from other financial institutions for loan and deposit accounts. The Company is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, 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 revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of foreclosed real estate.

In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers’ operations and the liquidation of loan collateral.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize loan losses, changes in economic conditions may necessitate revisions in future years.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in the Larimer County, Colorado area. Note B discusses the types of lending that the Company engages in.

Cash and Cash Equivalents

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

Interest-Bearing Time Deposits with Banks

Interest-bearing time deposits with banks are carried at cost, mature within two years and are fully covered by federal deposit insurance.

Nonmarketable Equity Securities

Nonmarketable equity securities, consisting of Federal Home Loan Bank and Federal Reserve Bank stock, are recorded at cost.

Loans

The Company primarily grants construction, land and land development and real estate loans to customers primarily in the Larimer County, Colorado area. The ability of the Company's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment on the related loan yield using the effective yield method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on all loans is discontinued at the time a loan is 90 days delinquent unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectability of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components as follows:

> The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccrual loans and all accruing troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.
>
> The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; and portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged-off.

On a monthly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. Significant overall risk factors for both the Company's real estate, commercial and consumer portfolios include the strength of the real estate market and the strength of economy in the Company's lending area.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated monthly by management. The ratings on the Company's internal credit scale are broadly grouped into the categories "non-classified" and "classified." Non-classified loans are those loans with minimal identified credit risk, as well as loans with potential credit weaknesses which deserve management's attention but for which full collection of contractual principal and interest is not significantly at risk. Classified loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk, and classified loans for which it is probable that the Company will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Company determines the extent of credit risk on its off-balance sheet financial instruments and whether there are probable incurred credit losses on those instruments for which a loss provision is necessary. The Company has determined that there is minimal credit risk on its off-balance sheet financial instruments, and accordingly has not recorded a loss provision or allowance for those instruments.

Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value less cost to sell at the date of acquisition, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the lease for financial statement purposes. Expected terms include lease option periods to the extent that the exercise of such option is reasonable assured. Normal costs of maintenance and repairs are charged to expense as incurred.

Intangible Assets

Core Deposit Intangible

The core deposit intangible resulted from Verus' acquisition of the Bank, and represents the excess of the fair value of deposits acquired over their book value at the time of acquisition. The core deposit intangible is amortized to expense over a ten year period. In addition, the core deposit intangible is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Goodwill

Goodwill resulting from Verus' acquisition of the Bank represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Income Taxes

Verus and its subsidiary each file separate federal and state returns. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2016.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Management periodically assesses the deferred tax asset, and a valuation allowance is recorded if the full amount is not expected to be realized.

The Company has adopted guidance issued by the Financial Accounting Standards Board with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that a portion of the deferred tax asset may not be realized within one year.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the consolidated financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material, or disclosed if the financial statements would otherwise be misleading.

The Company has evaluated subsequent events for recognition and disclosure through May 12, 2020, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

In January 2016, FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. One specific component of the ASU is the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities. For private companies, not-for-profit organizations, and employee benefit plans, the standard becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The Company does not expect the new accounting guidance to have a material impact on its consolidated financial position. The ASU permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company elected to early adopt this ASU for the year beginning January 1, 2015.

In June 2016, FASB issued ASU 2016-13 which contains guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

Transition

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.

- Existing purchased credit impaired assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.

- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The ASU will take effect for public business entities (PBEs) for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For PBEs that do not meet the definition of an SEC filer, the standard will be effective for fiscal years beginning after December 15, 2020, including interim periods with those fiscal years. For all other entities, the standard will be effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. All entities may early adopt for fiscal years beginning after December 15, 2018, including interim periods in those fiscal years. The Company has not yet completed evaluations on the impact of the new accounting guidance on its financial statements and its accounting and reporting practices.

In February, 2018 the FASB amended existing guidance, ASU 2016-02, that requires lessees recognize the following for all leases (with the exception of short -term leases) at the commencement date (1) A lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; 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. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company does not expect the new accounting guidance to have a material impact on its consolidated financial position.

In August 2018, the FASB amended ASU 2016-1, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, to modify disclosure requirements on fair value measurements. These amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this ASU. An entity is permitted to early-adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date.

The following disclosure requirements were removed:

1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.
2. The policy for timing of transfers between levels.
3. The valuation processes for Level 3 fair value measurements.

The following disclosure requirements were modified:

1. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.
2. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

The following disclosure requirements were added:

1. The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period.
2. The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines the other quantitative information would be a more reasonable an rational measure to reflect the distribution of unobservable inputs used to develop Level 3 fair value measures.

The Company does not expect the new accounting guidance to have a material impact on its consolidated financial position.

Adoption of New Accounting Standards

In 2019, the Bank adopted the Financial Accounting Standards Board's Accounting Standards Update 2014-09, Revenue from Contracts With Customers (Topic 606). The standard prescribes a five-step model to determine the amount and timing of revenue recognition related to the consideration the Bank expects to receive from the transfer of goods and services. The standard does not apply to financial instruments, and accordingly does not impact the Bank's recognition of interest income on its loans and investment securities, and does not impact the Bank's recognition of revenue from sales or transfers of loans and investment securities. Adoption of the standard did not result in any changes in the Bank's revenue recognition practices.

In 2019, the Bank adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The standard requires certain equity investments to be carried at fair value, with changes in fair value recognized in net income. The standard also provides certain disclosure guidance related to financial instruments. Adoption of the standard did not have a significant impact on the financial statements as the Bank has no marketable equity securities subject to fair value adjustment and no disclosures requiring change.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. The Company has no other comprehensive income for the years ended December 31, 2019 and 2018.

Reclassifications

Certain reclassifications have been made to 2018 amounts to conform to the current year presentation. Reclassifications had no effect on prior year income or stockholders' equity.

NOTE B - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Construction, land and land development		
Residential 1-4 family	$ 8,535	$ 2,446
Other	11,303	15,214
	19,838	17,660
Real estate		
Residential 1-4 family	30,172	27,166
Multifamily	15,584	15,331
Commercial	173,690	161,489
Farmland	1,649	2,971
	221,095	206,957
Commercial and industrial	7,556	6,972
Consumer and other	151	98
	$ 248,640	$ 231,687

At December 31, 2019, the Company had approximately $35,775,000 of SBA 504 and $541,000 of SBA 7A loans. Management believes these loans are considered liquid assets given the active and mature secondary market for these loans as well as their associated premiums. Management includes these assets as part of its liquidity measurement and includes them in the Company's Contingent Liquidity Plan, which is updated quarterly. These loans may be periodically sold for liquidity purposes and to manage industry concentrations and interest rate risk.

Transactions in the allowance for loan losses are as follows:

	Year ended December 31, 2019 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2018	$ 151	$ 1,742	$ 62	$ 1	$ 1,956
Provision for loan losses	19	(4)	(15)	-	-
Charge-offs	-	-	-	-	-
Recoveries	-	-	15	-	15
Net (charge-offs) recoveries	-	-	15	-	15
Balance at December 31, 2019	$ 170	$ 1,738	$ 62	$ 1	$ 1,971

	Year ended December 31, 2018 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2017	$ 156	$ 1,744	$ 55	$ 1	$ 1,956
Provision for loan losses	(5)	(2)	7	-	-
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Net (charge-offs) recoveries	-	-	-	-	-
Balance at December 31, 2018	$ 151	$ 1,742	$ 62	$ 1	$ 1,956

Components of the allowance for losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	December 31, 2019 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	170	1,738	62	1	1,971
	$ 170	$ 1,738	$ 62	$ 1	$ 1,971
Recorded Investment In:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	19,838	221,095	7,556	151	248,640
	$ 19,838	$ 221,095	$ 7,556	$ 151	$ 248,640

	December 31, 2018 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	151	1,742	62	1	1,956
	$ 151	$ 1,742	$ 62	$ 1	$ 1,956
Recorded Investment In:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	17,660	206,957	6,972	98	231,687
	$ 17,660	$ 206,957	$ 6,972	$ 98	$ 231,687

The Company had no impaired loans as of December 31, 2019 and 2018. There was no interest income recognized on impaired loans for 2019 and 2018.

The Company had no troubled debt restructurings as of December 31, 2019 and 2018.

The carrying amounts of loans by performance status and credit quality indicator are as follows:

December 31, 2019
(in thousands)

	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
Construction, land and land development								
Residential 1-4 family	$ 8,535	$ -	$ -	$ -	$ 8,535	$ 8,535	$ -	$ -
Other	$ 11,303	-	-	-	11,303	11,238	65	-
	19,838	-	-	-	19,838	19,773	65	-
Real estate								
Residential 1-4 family	30,172	-	-	-	30,172	30,167	5	-
Multifamily	15,584	-	-	-	15,584	15,584	-	-
Commercial	173,690	-	-	-	173,690	169,687	4,003	-
Farmland	1,649	-	-	-	1,649	1,649	-	-
	221,095	-	-	-	221,095	217,087	4,008	-
Commercial and industrial	7,556	-	-	-	7,556	7,373	183	-
Consumer and other	151	-	-	-	151	151	-	-
	$ 248,640	$ -	$ -	$ -	$ 248,640	$ 244,384	$ 4,256	$ -

December 31, 2018
(in thousands)

	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
Construction, land and land development								
Residential 1-4 family	$ 2,446	$ -	$ -	$ -	$ 2,446	$ 2,446	$ -	$ -
Other	$ 15,214	-	-	-	15,214	15,144	70	-
	17,660	-	-	-	17,660	17,590	70	-
Real estate								
Residential 1-4 family	27,166	-	-	-	27,166	26,810	356	-
Multifamily	15,331	-	-	-	15,331	15,331	-	-
Commercial	161,180	309	-	-	161,489	157,002	4,487	-
Farmland	2,971	-	-	-	2,971	2,971	-	-
	206,648	309	-	-	206,957	202,114	4,843	-
Commercial and industrial	6,972	-	-	-	6,972	6,883	89	-
Consumer and other	98	-	-	-	98	98	-	-
	$ 231,378	$ 309	$ -	$ -	$ 231,687	$ 226,685	$ 5,002	$ -

NOTE C - PREMISES AND EQUIPMENT

Premises and equipment, less accumulated depreciation and amortization consisted of the following:

	December 31,	
	2019	2018
	(in thousands)	
Leasehold improvements	$ 659	$ 659
Furniture, fixtures and equipment	1,384	1,359
	2,043	2,018
Accumulated depreciation and amortization	(1,988)	(1,957)
	$ 55	$ 61

The Company rents office space under an operating lease. The lease is for five years with renewal options. Rent expense in 2019 and 2018 was $184,000 and $192,000, respectively.

Future lease payments under the lease are as follows:

Years ending December 31,	(in thousands)
2020	$ 112
2021	137
2022	141
2023	144
2024	148
Thereafter	164
	$ 846

NOTE D – CORE DEPOSIT INTANGIBLE

The core deposit intangible asset consists of the:

	December 31,	
	2019	2018
	(in thousands)	
Core deposit intangible	$ 2,166	$ 2,166
Less accumulated amortization	(2,155)	(2,137)
	$ 11	$ 29

The remaining $11,000 balance of the core deposit intangible will be fully amortized in 2020.

NOTE E – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2019 and 2018 was $38,496,000 and $18,239,000, respectively.

At December 31, 2019, the scheduled maturities of certificates of deposit are as follows:

Years ending December 31,	(in thousands)
2020	$ 13,665
2021	21,899
2022	9,197
2023	4,610
2024	13,708
Thereafter	1,690
	$ 64,769

NOTE F – BORROWINGS

At December 31, 2019 and 2018, the Company had term advances outstanding with the Federal Home Loan Bank totaling $5,000,000 with an average weighted rate of 3.14%. The Company has executed a blanket pledge and security agreement with the Federal Home Loan Bank, which encompasses certain loans as collateral for these credit facilities.

At December 31, 2019 and 2018, the Company had notes payable outstanding with the Bankers' Bank of the West totaling $0 and $1,600,000, with an average weighted rate of 0% and 5.5%, respectively. The Company guaranteed this loan with 100% of the Company-owned stock of the Bank. This note was paid off in January 2019.

The scheduled maturities of notes payable as of December 31, 2019 are as follows.

Years ending December 31,	(in thousands)
2020	$ -
2021	2,000
2022	1,500
2023	1,500
2024	-
Thereafter	-
	$ 5,000

At December 31, 2019, short-term borrowings of $19,000,000 consisted of Federal Home Loan Bank fixed-rate advances with an interest rate of 1.79%. At December 31, 2018, short-term borrowings of $2,600,000 consisted of Federal Home Loan Bank fixed-rate advances with an interest rate of 2.65%.

At December 31, 2019 and 2018, loans totaling $126,477,000 and $129,253,000 were pledged to secure all Federal Home Loan Bank borrowings. At December 31, 2019, the Company had additional borrowing capacity at the Federal Home Loan Bank of approximately $60,631,000.

At December 31, 2019, the Company maintained various additional short and long-term lines of credit from other institutions with available facilities of $24,700,000.

NOTE G – INCOME TAXES

Following is an analysis of income taxes included in the statements of income:

	2019	2018
	(in thousands)	
Current tax expense		
Federal	$ 1,621	$ 1,472
State	364	342
	1,985	1,814
Deferred tax expense		
Federal	32	79
State	4	9
	36	88
	$ 2,021	$ 1,902

Listed below are the components of the net deferred tax assets, which are included in other assets:

	December 31, 2019	December 31, 2018
	(in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 484	$ 482
Organizational costs	38	57
Deferred loan fees	135	136
Other	55	63
Total deferred tax assets	712	738
Deferred tax liabilities		
Core deposit intangible	(3)	(7)
Other	(51)	(37)
Total deferred tax liabilities	(54)	(44)
Net deferred tax asset	$ 658	$ 694

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(percentage)	
Statutory federal tax rate	21.00	21.00
Increase resulting from:		
State tax, net of federal tax benefit	3.38	3.35
Revaluation of deferred tax asset	-	-
Amortization	3.73	3.14
Effective rate	28.11	27.49

NOTE H - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit.

Those instruments involve, to a varying degree, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

At December 31, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
	(in thousands)	
Commitments to extend credit	$ 33,484	$ 19,881
Letters of credit	877	1,071

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Stand-by letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE I - EMPLOYEE BENEFIT AND COMPENSATION PLANS

401(k) Plan

The Company maintains a 401(k) retirement plan whereby substantially all employees who meet certain age and length of service requirements may participate in the plan. For 2019 and 2018, expense attributable to the Plan amounted to $68,000 and $61,000, respectively.

Employment Agreements

The Company has employment agreements with its CEO and President. The agreements establish a salary that is increased annually based on performance factors relating to Company earnings, asset growth and asset quality. The CEO and President are also entitled to participate in annual bonuses based on Company earnings and asset quality. These are subject to annual review and approval by the Board of Directors.

Stock Appreciation Rights

The Company has a Stock Appreciation Rights (SAR) plan for senior officers. Under the plan, participants are granted a number of SARs at the discretion of the Company's Board of Directors. Each SAR entitles the holder to the book value appreciation in one share of the Company's common stock for the periods following the date of grant. The value of the stock appreciation vests immediately, at which time the holder is entitled to receive the value in cash. Expense attributable to the plan in 2019 and 2018 was $544,000 and $514,000, respectively. All expenses were paid as part of 2019 and 2018 compensation, and no liability related to this expense existed as of December 31, 2019 and 2018.

NOTE J – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company may make loans to executive officers, directors and principal shareholders of the Company, including their immediate families and companies in which they are principal owners. At December 31, 2019 and 2018, loans to these persons totaled $3,859,000 and $4,780,000, respectively. Deposits by related parties held by the Company at December 31, 2019 and 2018 amounted to $4,658,000 and $5,162,000, respectively.

NOTE K – STOCKHOLDERS' EQUITY AND DIVIDENDS

In December, 2019, the Company completed a non-compulsory share exchange with certain shareholders of the Bank and as a result, the Company now holds approximately 87.4% of the outstanding shares of the Bank.

Federal banking regulations place certain restrictions on dividends paid by the Bank to its shareholders. Approval by the banking regulators is required if the total of all dividends declared by the Bank exceeds the total of its net profits for the year combined with its retained net profits of the preceding two years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be deemed below the applicable minimum capital requirements.

NOTE L - MINIMUM REGULATORY CAPITAL REQUIREMENTS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank meets all capital adequacy requirements to which it is subject

The Basel III capital rules were fully phased in on January 1, 2019, and require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7%). The Bank is also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following tables present actual and required capital ratios for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2019 and 2018 based on the Basel III Capital Rules, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

	Actual		Minimum required for capital adequacy purposes		To be well capitalized under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2019						
Total capital (to risk weighted assets)	$ 35,463	14.4%	$ 25,850	10.5%	$ 24,619	10.0%
Tier 1 capital (to risk weighted assets)	33,492	13.6	20,926	8.5	19,695	8.0
Common Tier 1 capital (to risk weighted assets)	33,492	13.6	17,233	7.0	16,002	6.5
Tier 1 capital (to average assets)	33,492	12.3	10,861	4.0	13,576	5.0
As of December 31, 2018						
Total capital (to risk weighted assets)	$ 34,702	15.0%	$ 22,854	9.875%	$ 23,143	10.0%
Tier 1 capital (to risk weighted assets)	32,746	14.1	18,225	7.875	18,515	8.0
Common Tier 1 capital (to risk weighted assets)	32,746	14.1	14,754	6.375	15,043	6.5
Tier 1 capital (to average assets)	32,746	13.2	9,915	4.000	12,393	5.0

NOTE M – FAIR VALUE MEASUREMENT

The Company used the following methods and significant assumptions to estimate fair value:

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans are obtained from independent appraisers or other third-party consultants (Level 3).

Foreclosed Real Estate - Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed real estate are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

At December 31, 2019 and 2018, there were no collateral dependent impaired loans and no foreclosed real estate. During 2019 and 2018, there were no changes or amounts in Level 3 assets or liabilities recorded at fair value on a recurring basis.