

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

**VERUS ACQUISITION GROUP, INC.  
AND SUBSIDIARY**

December 31, 2020 and 2019

**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, 2020 and 2019, 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, 2020 and 2019 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  
April 29, 2021

**1580 Lincoln Street • Suite 700 • Denver, CO 80203  
303/296-6033 • FAX 303/296-8553  
Certified Public Accountants • A Professional Corporation**

**Verus Acquisition Group, Inc. and Subsidiary**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2020	2019
	(in thousands)	
<b>ASSETS</b>		
Cash and due from banks	\$ 5,497	\$ 6,087
Interest-bearing deposits with banks	71,990	11,588
Federal funds sold	522	2,431
Total cash and cash equivalents	78,009	20,106
Interest-bearing time deposits with banks	2,735	4,482
Nonmarketable equity securities	2,411	1,874
Loans	218,311	248,640
Less allowance for loan losses	(2,671)	(1,971)
Total loans	215,640	246,669
Premises and equipment, net	50	55
Accrued interest receivable	676	653
Core deposit intangible	-	11
Goodwill	733	733
Other assets	1,041	969
	\$ 301,295	\$ 275,552
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 102,114	\$ 70,150
Interest-bearing	147,840	140,686
Total deposits	249,954	210,836
Short-term borrowings	-	19,000
Notes payable	10,170	5,000
Accrued interest payable	68	102
Other liabilities	3,499	5,792
Total liabilities	263,691	240,730
Commitments (notes C and H)		
<b>Stockholders' equity</b>		
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, 1,906,206 and 1,909,206 shares issued and outstanding at December 31, 2020 and 2019, respectively	24,626	24,671
Retained earnings	7,578	5,517
Total equity attributable to common stock	32,204	30,188
Noncontrolling interest	5,400	4,634
Total stockholders' equity	37,604	34,822
	\$ 301,295	\$ 275,552

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,	
	2020	2019
	(in thousands)	
Interest and dividend income		
Interest and fees on loans	\$ 13,185	\$ 13,560
Interest on federal funds sold	2	11
Interest-bearing deposits with banks	182	472
Dividends	83	106
Total interest and dividend income	13,452	14,149
Interest expense		
Deposits	1,839	2,410
Federal Home Loan Bank borrowings	272	503
Total interest expense	2,111	2,913
Net interest income	11,341	11,236
Provision for loan losses	700	-
Net interest income after provision for loan losses	10,641	11,236
Noninterest income		
Service charges on deposit accounts	719	549
Fees from servicing government guaranteed loans	2	2
Gain on sale of foreclosed real estate	-	254
Other	196	198
	917	1,003
Noninterest expenses		
Salaries and employee benefits	3,467	3,413
Occupancy and equipment	379	338
Core deposit amortization	11	18
Other expenses	1,250	1,279
	5,107	5,048
Income before income taxes	6,451	7,191
Income tax expense	1,640	2,021
Net income before noncontrolling interests	4,811	5,170
Less net income attributable to noncontrolling interests	654	2,689
NET INCOME	\$ 4,157	\$ 2,481

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, 2020 and 2019

	Common stock	Retained earnings	Total	Non- controlling interests	Total equity
<b>Balance at December 31, 2018</b>	\$ 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)
<b>Balance at December 31, 2019</b>	24,671	5,517	30,188	4,634	34,822
Repurchase of common stock	(45)	-	(45)	-	(45)
Issuance of minority interest common stock	-	-	-	498	498
Repurchase of minority interest common stock	-	-	-	(15)	(15)
Comprehensive income					
Net income	-	4,157	4,157	654	4,811
Dividends declared on common stock	-	(2,096)	(2,096)	-	(2,096)
Dividends declared or paid to noncontrolling interests	-	-	-	(371)	(371)
<b>Balance at December 31, 2020</b>	<u>\$ 24,626</u>	<u>\$ 7,578</u>	<u>\$ 32,204</u>	<u>\$ 5,400</u>	<u>\$ 37,604</u>

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

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

	<u>Year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
Cash flows from operating activities		
Net income	\$ 4,157	\$ 2,481
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization	36	32
Core deposit amortization	11	18
Provision for loan losses	700	-
Federal Home Loan Bank stock dividends	(35)	(58)
Gain on sale of foreclosed real estate	-	(254)
Minority interest in subsidiary	654	2,689
Deferred income taxes	(125)	36
Net change in:		
Accrued interest receivable and other assets	30	(136)
Accrued interest payable and other liabilities	(2,327)	2,341
Net cash provided by operating activities	<u>3,101</u>	<u>7,149</u>
Cash flows from investing activities		
Net change in interest-bearing time deposits with banks	1,747	498
Purchase of nonmarketable equity securities	(502)	(1,936)
Redemptions on nonmarketable equity securities	-	2,236
Loan originations and principal collections, net	30,329	(16,938)
Expenditures for premises and equipment	(31)	(26)
Proceeds from the sale of foreclosed real estate	-	254
Net cash provided (used) by investing activities	<u>31,543</u>	<u>(15,912)</u>
Cash flows from financing activities		
Net change in deposits	39,118	(1,052)
Advances on notes payable	5,170	-
Payments on notes payable	-	(1,600)
Change in short-term borrowings	(19,000)	16,400
Issuance of common stock	498	-
Repurchase of common stock	(60)	(411)
Cash dividends paid on common stock	(2,467)	(4,723)
Net cash provided by financing activities	<u>23,259</u>	<u>8,614</u>
Net change in cash and cash equivalents	57,903	(149)
Cash and cash equivalents at beginning of period	<u>20,106</u>	<u>20,255</u>
Cash and cash equivalents at end of period	<u>\$ 78,009</u>	<u>\$ 20,106</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for		
Interest expense	\$ 2,145	\$ 2,933
Income taxes	1,740	1,904

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

# Verus Acquisition Group, Inc. and Subsidiary

## NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

### 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.

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

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.



## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

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.

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

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. Starting in 2020, for all loans, uncertainty surrounding the ultimate adverse economic effect of the COVID-19 pandemic on borrowers is a significant risk.

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

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.

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

#### **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 2017.

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.

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

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.

#### **Noninterest Income**

Noninterest income is substantially comprised of service charges on deposit accounts, ATM, and debit card income. Service charges on deposit accounts consist of monthly account fees, stop payment charges, and charges on deposit items returned for non-sufficient funds or paid as an overdraft (net of fees waived or refunded). ATM and debit card income is comprised of ATM charges for non-customer use of Bank ATMs and debit card interchange income. In all instances, noninterest income is recognized concurrent with the Bank’s satisfaction of the

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

underlying performance obligation, which typically occurs at a single point in time as a transaction or statement cycle is completed. Charges for deposit accounts continuously overdrawn are equivalent to interest and included as a component of interest and fees on loans.

#### **Subsequent Events**

Management evaluates events occurring after 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 April 29, 2021, which is the date the financial statements were available to be issued.

#### **Significant Accounting Standards Updates Not Yet Effective**

The Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842). Under the standard, the Bank will be required to record a right-of-use asset for leased property and record a corresponding lease liability. In general, rather than expense lease payments as they are made as currently done under operating lease guidance, the right-of-use asset will be amortized to expense over the lease term and lease payments will reduce the lease obligation. The standard is effective for the Bank beginning January 1, 2022. Management is in the process of determining the impact of the standard on the financial statements.

The FASB issued ASU 2016-03, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the standard, the Bank will be required to convert from the existing incurred-loss model for determining the allowance for loan losses to an expected-loss model. An expected-loss model will determine the allowance for loan losses balance based upon credit losses expected to be incurred over the life of the loan portfolio and will consider not only current credit conditions but also reasonable supportable expectations as to future credit conditions. The standard will also require securities held to maturity to be evaluated for impairment under an expected-loss model. The standard is effective for the Bank beginning January 1, 2023. Management is in the process of determining the impact of the standard on the financial statements.

Verus Acquisition Group, Inc. and Subsidiary

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

**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, 2020 and 2019.

**Reclassifications**

Certain reclassifications have been made to 2019 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,	
	2020	2019
	(in thousands)	
Construction, land and land development		
Residential 1-4 family	\$ 6,554	\$ 8,535
Other	9,512	11,303
	<u>16,066</u>	<u>19,838</u>
Real estate		
Residential 1-4 family	28,061	30,172
Multifamily	9,240	15,584
Commercial	153,374	173,690
Farmland	1,256	1,649
	<u>191,931</u>	<u>221,095</u>
Commercial and industrial	10,220	7,556
Consumer and other	94	151
	<u>\$ 218,311</u>	<u>\$ 248,640</u>

At December 31, 2020, the Company had approximately \$32,997,000 of SBA 504 and \$834,000 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.

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

Transactions in the allowance for loan losses are as follows:

	Year ended December 31, 2020				
	(in thousands)				
	Construction, land and land development	Real estate	Commercia l and industrial	Consumer and other	Total
Balance at December 31, 2019	\$ 170	\$ 1,738	\$ 62	\$ 1	\$ 1,971
Provision for loan losses	20	641	39	-	700
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Net (charge-offs) recoveries	-	-	-	-	-
Balance at December 31, 2020	<u>\$ 190</u>	<u>\$ 2,379</u>	<u>\$ 101</u>	<u>\$ 1</u>	<u>\$ 2,671</u>

	Year ended December 31, 2019				
	(in thousands)				
	Construction, land and land development	Real estate	Commercia l 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	<u>\$ 170</u>	<u>\$ 1,738</u>	<u>\$ 62</u>	<u>\$ 1</u>	<u>\$ 1,971</u>



**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

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

	December 31, 2020 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
<b><u>Allocation of Allowance To:</u></b>					
Impaired loans - evaluated individually	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	190	2,379	101	1	2,671
	<u>\$ 190</u>	<u>\$ 2,379</u>	<u>\$ 101</u>	<u>\$ 1</u>	<u>\$ 2,671</u>
<b><u>Recorded Investment In:</u></b>					
Impaired loans - evaluated individually	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	16,066	191,931	10,220	94	218,311
	<u>\$ 16,066</u>	<u>\$ 191,931</u>	<u>\$ 10,220</u>	<u>\$ 94</u>	<u>\$ 218,311</u>

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

	December 31, 2019 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
<b><u>Allocation of Allowance To:</u></b>					
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
<b><u>Recorded Investment In:</u></b>					
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

The Company had no impaired loans as of December 31, 2020 and 2019. There was no interest income recognized on impaired loans for 2020 and 2019.

The Company had no troubled debt restructurings as of December 31, 2020 and 2019.

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

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

	December 31, 2020 (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	\$ 6,554	\$ -	\$ -	\$ -	\$ 6,554	\$ 6,554	\$ -	\$ -
Other	9,512	-	-	-	9,512	9,458	54	-
	16,066	-	-	-	16,066	16,012	54	-
Real estate								
Residential 1-4 family	27,775	286	-	-	28,061	28,061	-	-
Multifamily	9,240	-	-	-	9,240	9,240	-	-
Commercial	152,660	714	-	-	153,374	149,734	3,640	-
Farmland	1,256	-	-	-	1,256	1,256	-	-
	190,931	1,000	-	-	191,931	188,291	3,640	-
Commercial and industrial	10,220	-	-	-	10,220	10,145	75	-
Consumer and other	94	-	-	-	94	94	-	-
	<u>\$ 217,311</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,311</u>	<u>\$ 214,542</u>	<u>\$ 3,769</u>	<u>\$ -</u>

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

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	-
	<u>19,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,838</u>	<u>19,773</u>	<u>65</u>	<u>-</u>
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	-	-
	<u>221,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>221,095</u>	<u>217,087</u>	<u>4,008</u>	<u>-</u>
Commercial and industrial	7,556	-	-	-	7,556	7,373	183	-
Consumer and other	151	-	-	-	151	151	-	-
	<u>\$ 248,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,640</u>	<u>\$ 244,384</u>	<u>\$ 4,256</u>	<u>\$ -</u>

**NOTE C - PREMISES AND EQUIPMENT**

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

	December 31,	
	2020	2019
	(in thousands)	
Leasehold improvements	\$ 659	\$ 659
Furniture, fixtures and equipment	1,415	1,384
	<u>2,074</u>	<u>2,043</u>
Accumulated depreciation and amortization	(2,024)	(1,988)
	<u>\$ 50</u>	<u>\$ 55</u>

The Company rents office space under an operating lease. The lease is for six years with renewal options. Rent expense in 2020 and 2019 was \$201,000 and \$184,000, respectively.

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

Future lease payments under the lease are as follows:

<u>Years ending December 31,</u>	(in thousands)
2021	\$ 137
2022	141
2023	144
2024	148
2025	151
Thereafter	13
	\$ 734

**NOTE D – CORE DEPOSIT INTANGIBLE**

The core deposit intangible asset consists of the:

	December 31,	
	2020	2019
	(in thousands)	
Core deposit intangible	\$ 2,166	\$ 2,166
Less accumulated amortization	(2,166)	(2,155)
	\$ -	\$ 11

**NOTE E – DEPOSITS**

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2020 and 2019 was approximately \$35,560,000 and \$38,496,000, respectively.

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

At December 31, 2020, the scheduled maturities of certificates of deposit are as follows:

Years ending <u>December 31,</u>	(in thousands)
2021	\$ 29,582
2022	10,774
2023	4,857
2024	13,977
	<u>\$ 59,190</u>

**NOTE F – BORROWINGS**

As of December 31, 2020 and 2019, the Company had term advances outstanding with the Federal Home Loan Bank totaling \$10,000,000 with an average weighted rate of 1.76%. 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, 2020 and 2019, the Company had a note payable outstanding with the Bankers' Bank of the West totaling \$170,000 and \$0, with an weighted average rate of 4.4% and 0%, respectively. The Company guaranteed the note with 100% of the Company-owned stock of the Bank and it matures on January 13, 2022. As of December 31, 2020, the Company had additional borrowing capacity under this note of \$830,000.

The scheduled maturities of term advances and notes payable as of December 31, 2020 are as follows:

Years ending <u>December 31,</u>	(in thousands)
2021	\$ 2,000
2022	6,670
2023	1,500
	<u>\$ 10,170</u>

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

As of December 31, 2020, the Company had no short-term borrowings. As of 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, 2020 and 2019, loans totaling \$117,653,000 and \$126,477,000 were pledged to secure all Federal Home Loan Bank borrowings. At December 31, 2020, the Company had additional borrowing capacity at the Federal Home Loan Bank of approximately \$68,880,000.

At December 31, 2020, 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:

	<u>2020</u>	<u>2019</u>
	(in thousands)	
Current tax expense		
Federal	\$ 1,441	\$ 1,621
State	324	364
	<u>1,765</u>	<u>1,985</u>
Deferred tax expense		
Federal	(109)	32
State	(16)	4
	<u>(125)</u>	<u>36</u>
	<u>\$ 1,640</u>	<u>\$ 2,021</u>

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

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

	December 31,	
	2020	2019
	(in thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 657	\$ 484
Organizational costs	18	38
Deferred loan fees	115	135
Other	52	55
Total deferred tax assets	842	712
Deferred tax liabilities		
Core deposit intangible	-	(3)
Other	(59)	(51)
Total deferred tax liabilities	(59)	(54)
Net deferred tax asset before valuation allowance	783	658
Less valuation allowance	-	-
Net deferred tax asset	\$ 783	\$ 658



**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

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,	
	2020	2019
	(percentage)	
Statutory federal tax rate	21.00	21.00
Increase resulting from:		
State tax, net of federal tax benefit	3.15	3.38
Amortization	1.27	3.73
Effective rate	25.42	28.11

**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, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2020	2019
	(in thousands)	
Commitments to extend credit	\$ 27,515	\$ 33,484
Letters of credit	709	877

## Verus Acquisition Group, Inc. and Subsidiary

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

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 creditworthiness 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 both 2020 and 2019, expense attributable to the Plan amounted to approximately \$68,000.

##### **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 2020 and 2019 was \$547,000 and \$544,000, respectively. All expenses were paid as part of 2020 and 2019 compensation, and no liability related to this expense existed as of December 31, 2020 and 2019.

## **Verus Acquisition Group, Inc. and Subsidiary**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

#### **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, 2020 and 2019, total loans to these persons approximated \$1,483,000 and \$3,859,000, respectively. Deposits by related parties held by the Company at December 31, 2020 and 2019 were approximately \$6,453,000 and \$4,658,000, 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 86.5% 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**

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to other factors. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2020 and 2019, that the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2020 and 2019, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy the community bank leverage ratio framework (“CBLR framework”), for qualifying community banking organizations, consistent with Section 201 of Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies’ capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2020, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts and ratios are presented below:

	Actual		To be well capitalized under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
	(in thousands)			
<b><u>As of December 31, 2020</u></b>				
Tier 1 capital (to average total assets)	\$ 36,189	12.6%	\$ 22,946	8.0%

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

The following table presents actual and required ratios as of December 31, 2019. 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)					
<b><u>As of December 31, 2019</u></b>						
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

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the Bank's financial statements. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject, and that the Bank exceeds the minimum levels necessary to be considered "well capitalized".

**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, 2020 and 2019, there were no collateral dependent impaired loans and no foreclosed real estate. During 2020 and 2019, there were no changes or amounts in Level 3 assets or liabilities recorded at fair value on a recurring basis.

**Verus Acquisition Group, Inc. and Subsidiary**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2020 and 2019**

**NOTE N – COVID-19**

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Efforts to limit the spread of COVID-19 have included shelter-in-place orders, the closure or reduction in operating capacity of non-essential business, travel restrictions, supply chain disruptions, and prohibitions on public gatherings, among other things, throughout many parts of the United States including the markets in which the Bank operates. As the current pandemic is ongoing and dynamic in nature, there are many uncertainties related to COVID-19 including the ultimate impact to the economy and to the Bank's customers, employees, and vendors of governmental authorities' actions taken or that may yet be taken, or inaction, to contain the outbreak or to mitigate both the economic and health-related impact. Considering the uncertainties and continuing developments surrounding COVID-19, the ultimate impact to the Bank cannot be reliably estimated at this time.