REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

DENALI BANCORPORATION, INC. AND SUBSIDIARY

December 31, 2019 and 2018

MOSSADAMS

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Balance sheets	3
Statements of income	4
Statements of comprehensive income	5
Statements of changes in stockholders' equity	5
Statements of cash flows	6–7
Notes to consolidated financial statements	8–40

Note: These financial statements have not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

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Report of Independent Auditors

To the Stockholders and Board of Directors
Denali Bancorporation, Inc. and Subsidiary

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Moss Adams LLP

Portland, Oregon
March 30, 2020

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 3,229,811	$ 3,715,166
Interest-bearing deposits in other financial institutions	6,617,069	4,988,294
Investment securities available-for-sale, at fair value	69,473,981	78,551,571
Investment securities held-to-maturity, at amortized cost	5,884,118	8,517,968
Loans held-for-sale	5,046,474	1,569,583
Loans, net of allowance for loan losses and unearned income	188,641,425	169,477,894
Accrued interest receivable	1,184,752	1,250,095
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	5,229,312	4,715,792
Federal Home Loan Bank stock	339,300	323,700
Cash surrender value of bank-owned life insurance	6,713,540	6,542,781
Other real estate owned	2,068,569	2,094,552
Other assets	1,456,265	981,323
Total assets	$ 295,884,616	$ 282,728,719
LIABILITIES		
Deposits		
Noninterest-bearing demand deposits	$ 113,298,240	$ 105,480,305
Interest-bearing demand deposits	37,093,651	34,383,782
Savings	87,285,566	88,980,370
Time deposits	23,581,279	22,863,522
Total deposits	261,258,736	251,707,979
Dividends payable	1,885,027	1,709,737
Accrued interest payable and other liabilities	1,971,079	948,413
Total liabilities	265,114,842	254,366,129
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
STOCKHOLDERS' EQUITY		
Common stock $1 par value; 10,000,000 shares authorized; 2,856,101 and 2,849,561 shares issued and outstanding at December 31, 2019 and 2018, respectively	2,856,101	2,849,561
Additional paid-in capital	5,471,387	5,409,257
Retained earnings	20,761,996	19,683,308
Accumulated other comprehensive income, net of taxes	1,680,290	420,464
Total stockholders' equity	30,769,774	28,362,590
Total liabilities and stockholders' equity	$ 295,884,616	$ 282,728,719
BOOK VALUE PER SHARE OF COMMON STOCK	$ 10.77	$ 9.95

See accompanying notes.

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Income

	Years Ended December 31, 2019	Years Ended December 31, 2018
INTEREST INCOME		
Interest and fees on loans	$ 11,645,543	$ 10,815,605
Interest on investment securities	2,495,107	2,456,593
Interest on deposits at other financial institutions	209,780	217,889
Total interest income	14,350,430	13,490,087
INTEREST EXPENSE		
Interest on deposits	441,691	355,257
Interest on borrowed funds	32,386	34,166
Total interest expense	474,077	389,423
NET INTEREST INCOME	13,876,353	13,100,664
PROVISION FOR LOAN LOSSES	880,000	1,245,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,996,353	11,855,664
NONINTEREST INCOME		
Service charges and other fees	2,517,777	2,349,308
Net gain on sale of loans	575,562	548,254
Increase in value of bank-owned life insurance	170,759	174,642
Net gain on sale of investment securities	16,854	259,455
Total noninterest income	3,280,952	3,331,659
NONINTEREST EXPENSE		
Salaries and employee benefits	7,826,136	7,428,882
Net occupancy and equipment	1,160,315	1,158,996
Data processing and telephone	1,167,438	1,077,108
Professional fees	382,411	360,271
Bankcard processing	322,476	312,100
Advertising and promotion	295,859	251,610
Other operating expenses	1,520,991	1,697,560
Total noninterest expense	12,675,626	12,286,527
INCOME BEFORE PROVISION FOR INCOME TAXES	3,601,679	2,900,796
PROVISION FOR INCOME TAXES	637,964	371,805
NET INCOME	$ 2,963,715	$ 2,528,991
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	$ 2,855,940	$ 2,849,405
BASIC EARNINGS PER SHARE OF COMMON STOCK	$ 1.04	$ 0.89

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Years Ended December 31, 2019	2018
NET INCOME	$ 2,963,715	$ 2,528,991
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gain on investment securities available-for-sale, net of taxes of $503,589 and ($181,239)	1,267,630	(456,378)
Reclassification adjustment for realized gains on investment securities available-for-sale included in noninterest income, net of taxes of $3,095 and $73,763	(7,804)	(185,692)
Total other comprehensive income (loss), net of taxes	1,259,826	(642,070)
COMPREHENSIVE INCOME	$ 4,223,541	$ 1,886,921

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock				Accumulated Other	
	Shares	Amount	Surplus	Retained Earnings	Comprehensive Income	Total Stockholders' Equity
BALANCE, December 31, 2017	2,843,861	$ 2,843,861	$ 5,360,807	$ 18,864,054	$ 1,062,534	$ 28,131,256
Net income	-	-	-	2,528,991	-	2,528,991
Other comprehensive loss, net of taxes	-	-	-	-	(642,070)	(642,070)
Directors' fees paid in common stock	5,700	5,700	48,450	-	-	54,150
Cash dividend ($0.60 per share)	-	-	-	(1,709,737)	-	(1,709,737)
BALANCE, December 31, 2018	2,849,561	2,849,561	5,409,257	19,683,308	420,464	28,362,590
Net income	-	-	-	2,963,715	-	2,963,715
Other comprehensive income, net of taxes	-	-	-	-	1,259,826	1,259,826
Directors' fees paid in common stock	6,540	6,540	62,130	-	-	68,670
Cash dividend ($0.66 per share)	-	-	-	(1,885,027)	-	(1,885,027)
BALANCE, December 31, 2019	2,856,101	$ 2,856,101	$ 5,471,387	$ 20,761,996	$ 1,680,290	$ 30,769,774

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,963,715	$ 2,528,991
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	880,000	1,245,000
Depreciation and amortization	446,563	455,106
Amortization of right-of-use asset	165,544	-
Amortization of premiums/accretion of discounts on investment securities	907,986	1,126,865
Net gain on sale of investment securities available-for-sale	(10,899)	(257,025)
Net gain on sale and call of investment securities held-to-maturity	(5,955)	(2,430)
Loss (gain) on sale of other real estate owned	2,167	(2,338)
Impairment of other real estate owned	25,982	88,657
Directors' fees paid with common stock	68,670	54,150
Change in deferred loan fees and costs	70,896	(81,591)
Change in deferred taxes	(208,700)	(193,067)
Proceeds from sale of loans held-for-sale	26,903,890	24,813,121
Originations of loans held-for-sale	(29,805,219)	(24,784,096)
Net gain on sale of loans	(575,562)	(548,254)
Increase in value of bank-owned life insurance	(170,759)	(174,642)
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable	65,343	(56,768)
Other assets	(100,441)	305,977
Accrued interest payable and other liabilities	356,371	412,937
Decrease in lease liability	(165,544)	-
Net cash from operating activities	1,814,048	4,930,593
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing deposits in other financial institutions	(1,628,775)	(138,527)
Purchases of available-for-sale securities	(8,144,557)	(20,916,960)
Proceeds from sale of available-for-sale securities	4,907,810	1,501,829
Proceeds from calls and maturities of available-for-sale securities	13,230,523	10,217,746
Proceeds from sale of held-to-maturity securities	-	183,949
Proceeds from calls and maturities of held-to-maturity securities	2,586,852	4,614,377
Net increase in loans	(20,482,977)	(10,262,532)
Improvements to other real estate owned	-	(257,947)
Proceeds from sales of other real estate owned	366,384	73,737
(Purchases) redemptions of Federal Home Loan Bank stock	(15,600)	20,600
Payments made for purchases of premises, equipment, and leasehold improvements	(960,083)	(97,787)
Net cash used in investing activities	(10,140,423)	(15,061,515)

See accompanying notes.

	Years Ended December 31, 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposit and savings accounts	$ 8,833,000	$ 23,659,888
Net increase (decrease) in time deposits	717,757	(10,760,509)
Federal Home Loan Bank borrowings repaid	-	(500,000)
Cash dividends paid	(1,709,737)	(1,706,317)
Net cash from financing activities	7,841,020	10,693,062
NET CHANGE IN CASH AND CASH EQUIVALENTS	(485,355)	562,140
CASH AND CASH EQUIVALENTS, beginning of year	3,715,166	3,153,026
CASH AND CASH EQUIVALENTS, end of year	$ 3,229,811	$ 3,715,166
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 442,895	$ 386,888
Cash paid for income taxes	$ 790,000	$ 131,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in fair value of securities included in accumulated other comprehensive income, net of tax	$ 1,259,826	$ (642,070)
Transfer of loans to other real estate owned	$ 368,550	$ 186,311
Establishment of right-of-use asset	$ 831,839	$ -
Establishment of lease liability	$ 831,839	$ -
Dividends declared but unpaid	$ 1,885,027	$ 1,709,737

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

Denali Bancorporation, Inc. (the Company) is a bank holding company whose principal activity is the ownership and operation of its wholly-owned subsidiary, Denali State Bank (the Bank). The Bank generates commercial, consumer, construction and mortgage loans, and receives deposits from customers located primarily in Interior Alaska. The Bank is chartered and regulated by the State of Alaska and is insured and subject to regulation by the Federal Deposit Insurance Corporation.

Basis of presentation

The accompanying consolidated financial statements of Denali Bancorporation, Inc. include the accounts of the Company and its wholly-owned subsidiary, Denali State Bank. Significant intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Financial statement presentation and use of estimates

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reporting practices applicable to the banking industry. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ significantly from those estimates.

Significant estimates are necessary in determining the recorded value of the allowance for loan losses, fair values and impairment of investment securities, fair value of impaired loans, net realizable value of other real estate owned, and fair values of financial instruments. Management believes the assumptions used in arriving at these estimates are appropriate.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of stockholders' equity and within the consolidated statements of comprehensive income.

Cash and cash equivalents

Cash equivalents are generally short-term investments with a maturity of three months or less. Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold.

The Bank maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of correspondent banks. The Bank has not experienced any losses in such accounts.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Investment securities
Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities are classified as "available-for-sale" if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Gains or losses on the sale of available-for-sale securities are determined using the specific-identification method. Unrealized holding gains and losses, net of tax, on available-for-sale securities are carried as accumulated other comprehensive income or loss within stockholders' equity until realized. Fair values for these investment securities are generally based on quoted market prices for the same or similar instruments. Premiums and discounts for all investment securities are recognized in interest income using the effective interest method over the period to maturity for the accretion of discounts and until the most recent call date for securities purchased at a premium.

Investment securities are reviewed on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent, and nature of the change in fair value, issuer rating changes and trends, whether the Bank intends to sell a security or if it is likely that it will be required to sell the security before recovery of its amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if the Bank intends to sell the security or it is likely that it will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Bank does not intend to sell the security and it is not likely that it will be required to sell the security, but it does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI) within stockholders' equity.

Securities transferred from held-to-maturity to available-for-sale are transferred at amortized cost and subsequently adjusted to fair value at the date of transfer. Fair value adjustments are recognized in other comprehensive income at the time of the transfer and, thereafter, among unrealized gains or losses recognized for all securities classified as available-for-sale.

Loans, net of allowance for loan losses and unearned income
Loans are stated at their unpaid principal balances, net of premiums and discounts on purchased loans, the allowance for loan losses and unamortized deferred fees and costs. All loan origination fees and related direct costs are deferred and amortized to interest income as an adjustment to yield over the respective maturities of the loans using the effective interest method. Interest on loans is accrued as earned on a daily basis based on principal amounts outstanding, except where reasonable doubt exists as to the collection of interest, in which case the accrual of interest is discontinued and the loan is placed on non-accrual status.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due (both principal and interest), according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. Accrual of interest is discontinued on impaired loans when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and collection of the principal amount of the loan is reasonably assured.

A troubled debt restructuring is a formal restructure of a loan in which the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concession may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. Troubled debt restructurings are measured at the time of restructure for impairment, and subsequently are subjected to the Bank's impaired loan accounting policy.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. Recoveries of previously charged-off loans are recorded as a credit or increase to the allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Various regulatory agencies, as a routine part of their examination process, periodically review the Bank's reserve for loan losses. Such agencies may require the Bank to recognize additions to the allowance, based on their judgment of information available to them at the time of examinations.

Loans held-for-sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Net unrealized losses are recognized in a valuation allowance by charges to income. Mortgage loans are generally sold with servicing rights retained by the Company.

Transfers of financial assets

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

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Other real estate owned
Other real estate owned (OREO), which represents property acquired through foreclosure or deeds in lieu of foreclosure, is initially measured and carried at fair value, establishing a new cost basis. At the time of foreclosure, any excess of the loan balance over the fair value of the property is charged to the allowance for loan losses and any excess estimated fair value over the loan's carrying value is recognized first as a recovery to the allowance for loan losses, to the extent that amounts have been charged-off for that loan.

Subsequently, any carrying value in excess of the loan's fair value is recognized in noninterest expense. Subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest income and expense.

Premises, equipment, and leasehold improvements
Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation, and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or lease term in the case of leasehold improvements, which range from three to forty years.

Leases
The Company enters into leases in the normal course of business, primarily related to bank branches. The Company's leases have remaining terms ranging from one to five years, some of which include renewal options to extend the lease for up to five years. In addition, the Company leases office space within the Company's headquarters building to third-parties, the terms of which range from one to five years.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the estimated rate of interest for collateralized borrowing at date of lease inception, adjusted for the lease term and other factors.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Federal Home Loan Bank (FHLB) of Des Moines stock

At December 31, 2019 and 2018, the Bank held FHLB stock with a par value of $339,300 and $323,700, respectively. As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock, based on specific percentages of the Bank's outstanding mortgages, total assets, or FHLB advances. This security is reported at par value, which represents the Bank's cost. Stock redemptions are made at the discretion of the FHLB.

Stock in the FHLB of Des Moines is classified as restricted stock and is periodically evaluated for impairment. The determination as to whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as: (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock of the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. Management's review for impairment is based on ultimate recoverability of the Bank's cost basis in FHLB stock, and concluded that the FHLB stock investment was not impaired as of December 31, 2019.

Cash surrender value of bank-owned life insurance

The Bank holds life insurance contracts covering certain executives and senior management. The cash surrender values of the contracts reflect the Bank's investment in the recorded assets, net of surrender charges. Holding gains and losses related to the contracts are included in earnings as gains or losses in the period in which they arise.

Income taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. A tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not anticipate that the amount of any unrecognized tax benefits will significantly increase or decrease in the next 12 months. The Company recognizes interest and penalties related to income tax matters in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Alaska. The Company is no longer subject to U.S. or Alaska state examinations by tax authorities for years before 2016.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Off-balance sheet financial instruments
The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Revenue
The Bank recognizes revenue from noninterest income as follows:

Interchange income and expenses – Interchange income represent fees earned when a debit or credit card issued by the Bank is used. The Bank earns interchange fees from debit and credit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' debit or credit card. Certain expenses and rebates directly associated with the debt and credit card interchange contracts are recorded on a net basis with the interchange income.

Service charges on deposit accounts – The Company earns fees from its deposit customers for account maintenance, transaction-based activity and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Gain/loss on other real estate owned, net – The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. When the Company finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, The Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Gains and losses on the sale of other real estate owned are included in noninterest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Advertising and promotional expenses
The Bank expenses advertising and promotional costs as they are incurred. Advertising costs of $295,859 and $251,610 were charged to expense during the years ended December 31, 2019 and 2018, respectively.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Earnings per share
Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period, retroactively adjusted for stock dividends and splits. Diluted earnings per common share is computed similar to basic earnings per common share except that the denominator is increased, using the treasury stock method, to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

Since the Company has no common stock equivalents outstanding as of December 31, 2019 and 2018, only basic earnings per share information is presented.

Fair value measurements
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Bank determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions.

These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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

The Bank used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value on a recurring and non-recurring basis in the financial statements:

Investment securities available-for-sale
For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing. The Company has determined these are Level 1 and Level 2 inputs.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Impaired loans
Fair value of impaired loans is based upon the present value of expected future cash flows discounted at rates being offered for loans with similar terms to borrowers of similar credit quality, the loan's market price, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. The Company has determined these are Level 3 inputs.

Other real estate owned
Certain assets held within other real estate owned represent impaired real estate that has been adjusted to its estimated fair value as a result of their transfer from the loan portfolio at the time of foreclosure and based on management's periodic impairment evaluation. The Company has determined these are Level 3 inputs.

The following methods were used to estimate the fair value of all other financial instruments not recognized on the basis of fair value in the accompanying balance sheets:

Cash and due from banks – The carrying amounts of cash and short-term instruments approximate their fair value.

Interest-earning deposits at other financial institutions – The fair value of interest-earning deposits at other financial institutions is estimated using a discounted cash flow analysis based on the current market rate for similar types of certificates.

Investment securities held-to-maturity – For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing. The Company has determined these are Level 1 and Level 2 inputs.

FHLB stock – The carrying value of FHLB stock is estimated to represent its fair value.

Loans held-for-sale – The carrying value of loans-held-for sale approximates the estimated fair value.

Loans – For variable rate loans that reprice frequently and have no significant change in credit risk, fair value approximates carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential) and consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for fixed-rate commercial real estate and commercial loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Bank owned life insurance – The carrying amount approximates fair value.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Deposit liabilities – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable rate fixed-term money market accounts and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities for time deposits.

Borrowings – Rates currently available to the Bank for FHLB borrowings with similar terms and remaining maturities are used to estimate the fair value of borrowings.

Off-balance sheet instruments – The Bank's off-balance sheet instruments include unfunded commitments to extend credit and standby letters of credit. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excess costs. Given the uncertainty of a commitment being drawn upon, it is not reasonable to estimate the fair value of these commitments; therefore, the Company has not made any disclosure of the fair value of off-balance sheet financial instruments.

Adoption of new accounting standards

On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2016-02 *Leases,* and all subsequent amendments to the ASU (collectively, "ASC 842"). The primary effects of the amendment are to recognize lease assets and lease liabilities on the balance sheet and to disclose certain information about leasing arrangements. The Company adopted ASC 842 as of January 1, 2019, using the modified retrospective approach, which included a number of practical expedients to: a) not reassess whether any expired or existing contracts are or contain leases, b) not reassess the lease classification for any expired or existing leases, and c) not reassess initial direct costs for any existing leases. The Company has also chosen the option to not restate comparative periods prior to the adoption of the new lease accounting standard. At adoption the Company recorded a right-of-use asset (ROU) and a lease liability of $831,839.

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, "ASC 606"), which: (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The majority of the Company's revenues come from interest income and other financial instrument sales, including loans, investments, and interest-bearing deposits at other financial institutions, which are outside the scope of ASC 606. The Bank's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges, interchange income, and gains and losses on OREO.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-01 require all equity investments to be measured at fair value with changes in the fair value recognized through net income. The amendments in ASU 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. The amendments in ASU 2016-01 are effective for the first interim or annual period beginning after December 15, 2017. The Company adopted the amendments of ASU 2016-01 effective January 1, 2018, and there was no impact on the accounting for assets and liabilities; therefore, no cumulative effect adjustment was recorded. The Company's processes and procedures utilized to estimate the fair value of loans receivable and certificate of deposit accounts for disclosure requirements were additionally changed due to adoption of this ASU. Previously, the Company valued these items using an entry price notion. This ASU emphasized that these instruments be measured using the exit price notion; accordingly, the Company refined its calculation as part of adopting this standard. See Note 14, Fair Values of Assets and Liabilities.

Events subsequent to year-end

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. See Note 17, Subsequent Event.

The Company has evaluated subsequent events through March 30, 2020, which is the date the consolidated financial statements became available to be issued.

Note 2 – Investment Securities

The amortized cost and estimated fair values of investments in debt securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Securities available-for-sale				
Mortgage-backed securities	$ 31,870,097	$ 1,180,568	$ (55,733)	$ 32,994,932
Obligations of states and political subdivisions	31,248,336	1,181,206	(2,638)	32,426,904
Obligations of U.S. government corporations and agencies	4,007,774	44,371	-	4,052,145
	$ 67,126,207	$ 2,406,145	$ (58,371)	$ 69,473,981
Securities held-to-maturity				
Obligations of states and political subdivisions	$ 5,398,436	$ 129,266	$ -	$ 5,527,702
Mortgage-backed securities	485,682	39,550	-	525,232
	$ 5,884,118	$ 168,816	$ -	$ 6,052,934
December 31, 2018				
Securities available-for-sale				
Mortgage-backed securities	$ 38,073,294	$ 545,011	$ (262,156)	$ 38,356,149
Obligations of states and political subdivisions	35,878,581	519,019	(200,142)	36,197,458
Obligations of U.S. government corporations and agencies	4,012,242	7,170	(21,448)	3,997,964
	$ 77,964,117	$ 1,071,200	$ (483,746)	$ 78,551,571
Securities held-to-maturity				
Obligations of states and political subdivisions	$ 7,864,666	$ 208,773	$ -	$ 8,073,439
Mortgage-backed securities	653,302	34,125	-	687,427
	$ 8,517,968	$ 242,898	$ -	$ 8,760,866

Note 2 – Investment Securities (continued)

The following table presents the gross unrealized losses and fair values of the Bank's investment securities, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions:

	Less than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
Securities available-for-sale						
Mortgage-backed securities	$ 1,899,912	$ (9,066)	$ 1,140,085	$ (46,667)	$ 3,039,997	$ (55,733)
Obligations of states and political subdivisions	1,014,420	(2,638)	-	-	1,014,420	(2,638)
	$ 2,914,332	$ (11,704)	$ 1,140,085	$ (46,667)	$ 4,054,417	$ (58,371)
December 31, 2018						
Securities available-for-sale						
Mortgage-backed securities	$ 1,740,691	$ (1,887)	$ 10,995,796	$ (260,269)	$ 12,736,487	$ (262,156)
Obligations of states and political subdivisions	6,160,029	(23,019)	5,773,105	(177,123)	11,933,134	(200,142)
Obligations of U.S. government corporations and agencies	505,785	(6,223)	1,484,775	(15,225)	1,990,560	(21,448)
	$ 8,406,505	$ (31,129)	$ 18,253,676	$ (452,617)	$ 26,660,181	$ (483,746)

At December 31, 2019 and 2018, the Bank held three and 30 securities, respectively, that had unrealized losses and are considered to be temporarily impaired investments. Temporary impairment of these securities is due to interest rate risk associated with fixed-rate obligations and prepayment risk resulting from premature calls of similar classes of securities. Management believes that, while actual fluctuations in unrealized losses may occur over the life of investment securities, the temporary impairment of each investment security in an unrealized loss position at December 31, 2019 and 2018, will reverse as the individual investment security approaches its contractual maturity date, except as noted below.

There were no other-than-temporary impairment charges recognized during the years ended December 31, 2019 or 2018. In determining whether other material amounts of other-than-temporary impairment exist, management has considered the likelihood that securities will be called prior to maturity and the ability of the issuer to satisfy its repayment obligation upon maturity. Based on these and other considerations, management believes that no other material amounts of other-than-temporary impairment exist as of December 31, 2019 and 2018.

Note 2 – Investment Securities (continued)

The following table presents a rollforward of the credit loss component of available-for-sale securities that have been written down for other-than-temporary impairment (OTTI) with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in other comprehensive income for the years ended December 31, 2019 and 2018:

	2019	2018
Balance of OTTI recognized, beginning of period	$ (283,218)	$ (320,270)
Reduction in OTTI for repayments of debt securities	57,240	37,052
Balance of OTTI recognized, end of period	$ (225,978)	$ (283,218)

At December 31, 2019 and 2018, securities with fair values of approximately $32,500,000 and $24,800,000, respectively, were pledged to secure borrowings and public deposits, as required or permitted by law.

Proceeds from the sale of available-for-sale securities were $4,907,810 and $1,501,829 during 2019 and 2018, respectively. The sales resulted in gross realized gains of $32,021 and $264,169 for the years ended December 31, 2019 and 2018, respectively. Gross realized losses for the years ended December 31, 2019 and 2018 were $21,122 and $7,144, respectively.

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities by contractual maturity at December 31, 2019, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2019			
	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 612,930	$ 621,056	$ 400,893	$ 407,093
Due after one year through five years	9,001,886	9,238,205	2,168,962	2,216,572
Due after five years through ten years	4,574,467	4,730,386	759,063	776,759
Due after ten years	52,936,924	54,884,334	2,555,200	2,652,510
	$ 67,126,207	$ 69,473,981	$ 5,884,118	$ 6,052,934

For the purposes of the maturity table above, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. Mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

Note 3 – Loans, Net of Allowance for Loan Losses and Unearned Income

Loans consisted of the following at December 31:

	2019	2018
Commercial	$ 51,933,515	$ 39,464,353
Commercial real estate	72,275,892	72,142,985
Consumer	24,815,664	18,804,891
Residential	43,239,236	42,525,389
Total loans	192,264,307	172,937,618
Allowance for loan losses	(3,271,451)	(3,037,397)
Deferred loan fees and costs, net	(351,431)	(422,327)
Loans, net	$ 188,641,425	$ 169,477,894

Loans pledged to secure borrowings were approximately $71,940,000 and $74,270,000 as of December 31, 2019 and 2018, respectively.

Mortgage loans originated by the Bank are normally sold on a nonrecourse basis to the Alaska Housing Finance Corporation, the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae) and other secondary markets. At December 31, 2019 and 2018, the Bank serviced mortgage loans of $180,590,633 and $176,219,577, respectively, which had been sold to these investors.

The estimated fair value of the mortgage servicing rights is less than material to the financial statements.

Note 4 – Allowance for Loan Losses

The following tables display the allocation of, and activity within, the allowance for loan losses to significant segments of the loan portfolio as of and for the years ended December 31, 2019 and 2018:

	2019				
	Commercial	Commercial Real Estate	Consumer	Residential	Totals
Allowance					
Balance, beginning of the period	$ 874,113	$ 1,192,046	$ 814,442	$ 156,796	$ 3,037,397
Charge-offs	-	-	(767,941)	-	(767,941)
Recoveries	597	-	119,898	1,500	121,995
Provision for loan losses	120,000	-	760,000	-	880,000
Balance, end of the period	$ 994,710	$ 1,192,046	$ 926,399	$ 158,296	$ 3,271,451
Ending balance individually evaluated for impairment	$ 8,574	$ 40,501	$ 10,389	$ 74,208	$ 133,672
Ending balance collectively evaluated for impairment	$ 986,136	$ 1,151,545	$ 916,010	$ 84,088	$ 3,137,779
Loans					
Ending balance individually evaluated for impairment	$ 390,136	$ 963,721	$ 65,680	$ 1,026,103	$ 2,445,640
Ending balance collectively evaluated for impairment	$ 51,543,379	$ 71,312,171	$ 24,749,984	$ 42,213,133	$ 189,818,667
Total loans	$ 51,933,515	$ 72,275,892	$ 24,815,664	$ 43,239,236	$ 192,264,307

	2018				
	Commercial	Commercial Real Estate	Consumer	Residential	Totals
Allowance					
Balance, beginning of the period	$ 700,916	$ 1,192,046	$ 399,433	$ 139,074	$ 2,431,469
Charge-offs	-	-	(714,629)	(70,825)	(785,454)
Recoveries	18,197	-	114,638	13,547	146,382
Provision for loan losses	155,000	-	1,015,000	75,000	1,245,000
Balance, end of the period	$ 874,113	$ 1,192,046	$ 814,442	$ 156,796	$ 3,037,397
Ending balance individually evaluated for impairment	$ 4,244	$ 7,978	$ 13,444	$ 10,679	$ 36,345
Ending balance collectively evaluated for impairment	$ 869,869	$ 1,184,068	$ 800,998	$ 146,117	$ 3,001,052
Loans					
Ending balance individually evaluated for impairment	$ 288,553	$ 1,240,737	$ 28,945	$ 660,394	$ 2,218,629
Ending balance collectively evaluated for impairment	$ 39,175,800	$ 70,902,248	$ 18,775,946	$ 41,864,995	$ 170,718,989
Total loans	$ 39,464,353	$ 72,142,985	$ 18,804,891	$ 42,525,389	$ 172,937,618

Note 4 – Allowance for Loan Losses (continued)

Credit quality indicators
The Bank's risk rating methodology assigns risk ratings ranging from 1 to 9, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans (generally consumer loans) and non-homogeneous loans (generally all non-consumer loans). The 9 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Low Risk – These loans range from minimal credit risk to modest credit risk. These loans may be secured by cash, certificates of deposit, or investments. Borrowers are individuals and companies with well-established reputations and operating in reasonably stable industries. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity.

Average Risk – These loans range from better than average to average credit risk. Primary repayment sources generate satisfactory debt service coverage under normal conditions. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity. Borrowers have the ability to endure business cycles and usually have access to additional credit sources.

Acceptable Risk – Loans are graded as acceptable when there are some management weaknesses present or weakness of underlying fundamentals. This includes loans that have limited debt capacity, modest debt service coverage and below average asset quality, margins, or market share. These borrowers may be performing, but sensitive to market trends or business cycles.

Watch – A watch rating indicates that, according to current information, the borrower has the capacity to perform according to terms; however, elements of uncertainty exist (an uncharacteristic negative financial or other risk factor event). Margins of debt service coverage are narrow, and historical patterns of financial performance may be erratic, although overall trends are positive. Often the operating assets of the company and/or real estate will secure these loans. If secured, collateral value and adequate sources of repayment currently protect the loan. Material adverse trends have not developed at this time. Loans in this category can be new and/or thinly capitalized companies.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the Bank's credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. A Special Mention loan has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. Unlike a Substandard credit, there is a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than a liquidation of assets, and in a reasonable period of time.

Note 4 – Allowance for Loan Losses (continued)

Substandard – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not necessarily exist in each individual asset classified as Substandard. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations, is the key distinction between Special Mention and Substandard loans.

Doubtful – Loans classified as Doubtful have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a Loss (and immediate charge-off) is deferred until more exact status may be determined.

Loss – These loans are considered uncollectible and of such little value that their continuance as active assets of the Bank is not warranted. This classification does not mean that the loan has no recovery or salvage value, but rather that it is not practical or desirable to defer writing it off as an asset. While Loss is an active grade in the risk rating system, any loan considered to be in this category is to be charged-off as soon as possible.

The following tables show credit quality indicators as of December 31:

	2019				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Low Risk	$ 999,375	$ 917,307	$ 2,324,702	$ 7,907,097	$ 12,148,481
Average Risk	8,159,223	25,428,766	2,108,271	6,367,105	42,063,365
Acceptable Risk	36,536,631	41,494,081	20,324,851	26,894,642	125,250,205
Watch	3,944,274	2,114,585	-	942,564	7,001,423
Special Mention	907,978	1,437,991	-	307,267	2,653,236
Substandard	1,386,034	883,162	57,840	820,561	3,147,597
Total	$ 51,933,515	$ 72,275,892	$ 24,815,664	$ 43,239,236	$ 192,264,307

	2018				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Low Risk	$ 1,185,685	$ 933,786	$ 4,050,508	$ 8,331,687	$ 14,501,666
Average Risk	2,858,768	25,640,678	3,471,250	10,210,506	42,181,202
Acceptable Risk	31,318,324	39,120,276	11,264,294	21,577,454	103,280,348
Watch	2,414,039	2,699,421	-	1,703,065	6,816,525
Special Mention	503,631	3,527,143	-	485,468	4,516,242
Substandard	1,183,906	221,681	18,839	217,209	1,641,635
Total	$ 39,464,353	$ 72,142,985	$ 18,804,891	$ 42,525,389	$ 172,937,618

Note 4 – Allowance for Loan Losses (continued)

The following table shows the age analysis of past due and nonaccrual loans as of December 31, 2019 and 2018:

	30 – 59 Days Past Due	60 – 89 Days Past Due	Recorded Investment > 90 Days Past Due and Accruing	Total Past Due	Nonaccrual Loans	Current	Total Loans
December 31, 2019							
Commercial	$ 50,000	$ -	$ 29,246	$ 79,246	$ 319,049	$ 51,535,220	$ 51,933,515
Commercial real estate	-	-	-	-	910,010	71,365,882	72,275,892
Consumer	58,392	91,437	21,056	170,885	57,841	24,586,938	24,815,664
Residential	302,090	186,618	-	488,708	768,718	41,981,810	43,239,236
	$ 410,482	$ 278,055	$ 50,302	$ 738,839	$ 2,055,618	$ 189,469,850	$ 192,264,307

	30 – 59 Days Past Due	60 – 89 Days Past Due	Recorded Investment > 90 Days Past Due and Accruing	Total Past Due	Nonaccrual Loans	Current	Total Loans
December 31, 2018							
Commercial	$ 25,910	$ 148,336	$ -	$ 174,246	$ 288,553	$ 39,001,554	$ 39,464,353
Commercial real estate	399,621	-	-	399,621	973,281	70,770,083	72,142,985
Consumer	120,560	102,728	72,842	296,130	18,839	18,489,922	18,804,891
Residential	662,666	138,602	-	801,268	549,969	41,174,152	42,525,389
	$ 1,208,757	$ 389,666	$ 72,842	$ 1,671,265	$ 1,830,642	$ 169,435,711	$ 172,937,618

Note 4 – Allowance for Loan Losses (continued)

The following table discloses information related to impaired loans for the years ended December 31, 2019 and 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
December 31, 2019				
With no related allowance recorded				
Commercial	$ 301,771	$ 301,771	$ -	$ 275,162
Commercial real estate	239,279	239,279	-	299,620
Residential	479,369	479,369	-	346,884
Consumer	28,276	28,276	-	14,138
	1,048,695	1,048,695	-	935,804
With an allowance recorded				
Commercial	88,365	88,365	8,574	64,183
Commercial real estate	724,442	724,442	40,501	557,946
Residential	546,734	546,734	74,208	496,365
Consumer	37,404	37,404	10,389	33,175
	1,396,945	1,396,945	133,672	1,151,669
Totals				
Commercial	390,136	390,136	8,574	339,345
Commercial real estate	963,721	963,721	40,501	857,566
Residential	1,026,103	1,026,103	74,208	843,249
Consumer	65,680	65,680	10,389	47,313
	$ 2,445,640	$ 2,445,640	$ 133,672	$ 2,087,473
December 31, 2018				
With no related allowance recorded				
Commercial	$ 248,553	$ 248,553	$ -	$ 282,755
Commercial real estate	849,288	849,288	-	893,761
Residential	214,399	214,399	-	536,657
	1,312,240	1,312,240	-	1,713,173
With an allowance recorded				
Commercial	40,000	40,000	4,244	40,000
Commercial real estate	391,449	391,449	7,978	437,132
Residential	445,995	445,995	10,679	428,514
Consumer	28,945	28,945	13,444	33,312
	906,389	906,389	36,345	938,958
Totals				
Commercial	288,553	288,553	4,244	322,755
Commercial real estate	1,240,737	1,240,737	7,978	1,330,893
Residential	660,394	660,394	10,679	965,171
Consumer	28,945	28,945	13,444	33,312
	$ 2,218,629	$ 2,218,629	$ 36,345	$ 2,652,131

Interest recognized on impaired loans during the years ended December 31, 2019 and 2018 was immaterial.

Note 4 – Allowance for Loan Losses (continued)

The Bank offers a variety of modifications to borrowers under circumstances of troubled debt restructurings. The modification categories offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is changed.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest only modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination modification – Any other type of modification, including the use of multiple categories above.

The following tables present troubled debt restructurings by interest accrual status as of December 31, 2019 and 2018:

	December 31, 2019		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate	$ -	$ 105,301	$ 105,301
Residential	256,491	-	256,491
Commercial	69,744	-	69,744
Consumer	7,824	1,933	9,757
	$ 334,059	$ 107,234	$ 441,293

	December 31, 2018		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate	$ 267,456	$ -	$ 267,456
Residential	110,425	131,553	241,978
Commercial	-	67,394	67,394
Consumer	10,106	3,049	13,155
	$ 387,987	$ 201,996	$ 589,983

As of December 31, 2019 and 2018, no lending commitments were outstanding for troubled debt restructurings.

Note 4 – Allowance for Loan Losses (continued)

During the year ended December 31, 2019, there was one commercial loan, totaling approximately $105,000, modified as a troubled debt restructuring. During 2018, there was one consumer loan, totaling approximately $3,000, modified as a troubled debt restructuring.

During 2019, there was one troubled debt restructuring of a commercial loan totaling $105,000 with a payment default occurring within 12 months of the restructure date. During 2018, there were no troubled debt restructurings with a payment default occurring within 12 months of the restructure date.

Note 5 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements at December 31 are summarized as follows:

	2019	2018
Buildings and leasehold improvements	$ 9,754,759	$ 9,034,675
Equipment	6,494,575	6,296,968
Land	708,307	708,307
Construction in progress	23,170	30,697
	16,980,811	16,070,647
Less: accumulated depreciation and amortization	(11,751,499)	(11,354,855)
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 5,229,312	$ 4,715,792

Depreciation and amortization expense totaled $446,563 and $455,106 for 2019 and 2018, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250,000 and over totaled $7,340,660 and $5,999,587 at December 31, 2019 and 2018, respectively.

As of December 31, 2019, the scheduled maturities for all time deposits were as follows:

Years ending December 31,	2020	$ 16,505,377
	2021	4,946,157
	2022	1,620,186
	2023	233,159
	2024	276,400
		$ 23,581,279

Note 7 – Borrowings

Federal Home Loan Bank advances
As a member of the FHLB, the Bank has entered into a "Cash Management Advance Promissory Note" Program with the FHLB. Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as deposits, investment securities or other instruments, which may be pledged. At December 31, 2019 and 2018, the Bank did not have any borrowings under this agreement.

Federal funds lines of credit and other borrowing arrangements
The Bank has obtained federal funds lines of credit totaling $16,500,000 with three correspondent banks. These lines of credit will expire upon consent of both parties. The Bank also has a borrowing line of $3,000,000 with the Federal Reserve Bank of San Francisco collateralized by investment securities. There were no balances outstanding on these federal funds lines of credit or the Federal Reserve borrowing line as of December 31, 2019 and 2018.

Note 8 – Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	2019	2018
Current tax expense		
Federal	$ 610,764	$ 258,523
State	235,900	143,039
	846,664	401,562
Deferred tax benefit		
Federal	(154,187)	(21,984)
State	(54,513)	(7,773)
	(208,700)	(29,757)
Provision for income taxes	$ 637,964	$ 371,805

Note 8 – Income Taxes (continued)

The following table presents the reconciliation of the federal statutory rate to the actual effective rate for the years ended December 31:

	2019		2018	
Statutory Federal income tax rate	$ 756,352	21.0%	$ 609,167	21.0%
State tax, net of Federal benefit	267,461	7.4%	215,413	7.4%
Tax exempt interest and non-taxable income	(399,638)	-11.1%	(443,551)	-15.3%
Other, net	13,789	0.1%	(9,224)	0.3%
Provision for income taxes	$ 637,964	17.5%	$ 371,805	12.8%

Deferred income taxes, recorded as other assets at December 31, 2019 and 2018, represent the tax effect of differences in timing between financial statement income and taxable income. The net deferred tax assets and liabilities, in the accompanying consolidated balance sheets at December 31, include the following components:

	2019	2018
Deferred tax assets		
Excess of provision for loan losses over deduction	$ 817,921	$ 782,020
Deferred compensation	322,767	243,065
Lease liability	189,401	-
Accrued leave	83,399	73,659
Nonaccrual interest income	64,537	37,564
Tax credits	-	82,235
Other reserves	2,898	4,070
OREO write-down	32,588	25,202
Total deferred tax assets	1,513,511	1,247,815
Deferred tax liabilities		
Accelerated depreciation	(232,280)	(369,044)
Right-of-use asset	(189,401)	-
Prepaids	(61,790)	(74,848)
Deferred loan costs	(96,517)	(79,246)
Unrealized gain on securities available-for-sale	(667,483)	(166,989)
Total deferred tax liabilities	(1,247,471)	(690,127)
Net deferred tax assets	$ 266,040	$ 557,688

Management believes, based upon the Company's historical performance, the deferred tax assets will be realized in the normal course of operations and, accordingly, management has not reduced net deferred tax assets by a valuation allowance.

Note 8 – Income Taxes (continued)

The Company's tax expense varies from statutory rates primarily due to non-taxable income. During the years ended December 31, 2019 and 2018, the Company recognized no interest and penalties related to income taxes. As of December 31, 2019 and 2018, the Company had no unrecognized tax benefits. Management does not anticipate the amount of unrecognized tax benefits will significantly change in the next 12 months.

Note 9 – Commitments and Contingencies

Legal contingencies

The Company may become a defendant in certain claims and legal actions arising in the ordinary course of business. There can be no assurance that the ultimate outcome will not differ materially from the Company's assessment of each matter. There can also be no assurance that all matters that may be brought against the Company are known to management or the Board of Directors at any point in time. In the opinion of management, after consultation with counsel regarding outstanding legal matters that could possibly result in a financial loss, there are no matters presently known to the Company that are expected to have a material adverse effect on the Company's financial condition or results of operations.

Off-balance sheet credit risk

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

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

Note 9 – Commitments and Contingencies (continued)

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

At December 31, 2019, the Bank had outstanding commitments for letters of credit, unused lines of credit and origination of loans that are not reflected in the accompanying consolidated financial statements as follows:

	$ 9,971,000
Commitments to extend credit	7,909,000
Home equity lines	7,181,000
Other unused commitments	1,397,000
Total commitments	$ 26,458,000

Note 10 – Leases

The Company, as lessee, leases three branch facilities under operating lease agreements that will expire between 2021 and 2024. In addition, the Company, as lessor, leases office space to two tenants, also under operating lease agreements.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications are as follows:

	Balance Sheet Classification	December 31, 2019
Right-of-use asset:		
Operating leases	Other assets	$ 666,295
Lease liabilities:		
Operating leases	Accrued interest payable and other liabilities	$ 666,295

Note 10 – Leases (continued)

The components of total lease expense recorded in net occupancy expenses were as follows for the year ended December 31, 2019:

Operating lease expense:		
Operating leases (1)	$	187,704
Less: operating lease income		(151,368)
Total operating lease expense, net	$	36,336

(1) Short-term lease costs were less than material to the financial statements

Future undiscounted lease liability maturities and lease receipts associated with lease agreements are as follows for the years ended December 31:

	Operating Leases	
	As Lessee	As Lessor
2020	$ 196,536	$ 152,468
2021	188,920	152,468
2022	150,840	152,468
2023	134,940	140,134
2024	99,200	85,200
Total undiscounted lease payments and receipts	770,436	$ 682,738
Less: imputed interest	(104,141)	
Net lease liabilities	$ 666,295	

Supplemental Lease information

For the year ended December 31, 2019:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	189,176

There were no new right-of-use assets obtained in exchange for new operating lease liabilities during the year ended December 31, 2019.

As of December 31, 2019:

Operating lease weighted average remaining lease term (years)	4.3
Operating lease weighted average discount rate	5.75%

Lease agreements do not contain any residual value guarantees or restrictive covenants.

Note 10 – Leases (continued)

Rent expense was $185,604 for the year ended December 31, 2018. Lease income was $165,138 for the year ended December 31, 2018.

Note 11 – Concentrations of Credit Risk

Substantially all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The Bank's loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of $500,000 without approval from the Board of Directors' Loan Committee.

Note 12 – Transactions with Related Parties

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to lend included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features. The amount of loans and loan commitments outstanding to directors, executive officers, principal stockholders, and companies that they are associated with at December 31 was as follows:

	2019	2018
BALANCE, beginning of year	$ 3,104,269	$ 3,084,974
Loans made	1,853,061	4,114,453
Loans repaid	(3,975,400)	(4,095,158)
BALANCE, end of year	$ 981,930	$ 3,104,269

As of December 31, 2019 and 2018, funds on deposit with the Bank from directors, principal stockholders, their related interests, and principal officers totaled $5,407,450 and $5,025,860, respectively.

The Company's directors are issued stock as compensation for attending meetings. The stock is valued at the average sales price for all stock transactions that occurred during the 12-month period preceding the issuance.

During the years ended December 31, 2019 and 2018, the Company issued directors 6,540 shares at $10.50 a share and 5,700 shares at $9.50 a share, respectively as compensation for attending board and committee meetings.

Note 13 – Employee Benefit Plans

401(k) pension and profit sharing plans

The Company has a 401(k) defined contribution profit sharing plan that covers all eligible employees. Participants may elect to contribute to the 401(k) plan up to the limits set by the Internal Revenue Code. To encourage employee participation in saving for retirement, the Company contributes a 3% non-elective safe harbor election, and also elected a 2% Company match for all eligible employees contributing to the 401(k) plan. The Company contributed $251,484 and $247,860 to this plan in 2019 and 2018, respectively. The Company may also make annual profit sharing contributions, as determined by the Board of Directors, but may not exceed the percentage of compensation allowable for income tax purposes. Company profit sharing contributions to the 401(k) plan were $240,000 and $202,000 for the years ended December 31, 2019 and 2018, respectively.

Supplemental executive retirement and deferred compensation plans

A supplemental executive retirement plan was established in 1996 to cover certain executive employees. The Company may make contributions to the plan at the discretion of the Board of Directors. However, the Company made no contributions to the plan during either 2019 or 2018. The total recorded plan obligation was $72,549 and $83,552 for the years ended December 31, 2019 and 2018, respectively. Contributions are held in a trust account for the benefit of the participants, with an offsetting liability account maintained to recognize the Company's obligation under the plan.

A separate supplemental executive retirement plan was established in 2016 to benefit certain executives and senior management. Participants are vested 100% after five years of service. Upon reaching retirement age, as determined by the plan, participants receive a monthly benefit upon retirement age paid out over a period of 15 years. As of December 31, 2019 and 2018, the liability associated with this plan was $1,062,915 and $759,101, respectively, and the Company recorded expense in the statement of income for the years ended December 31, 2019 and 2018, of $303,814 and $262,476, respectively. The Bank holds bank-owned life insurance on the participants to fund the supplemental retirement obligations under this plan.

Note 14 – Fair Values of Assets and Liabilities

The following table presents information about the Company's assets measured at fair value on a recurring and nonrecurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Fair Value Measurements			
	Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2019				
Recurring items				
Mortgage-backed securities	$ 32,994,932	$ -	$ 32,994,932	$ -
Obligations of states and political subdivisions	32,426,904	-	32,426,904	-
Obligations of U.S. government corporations and agencies	4,052,145	-	4,052,145	-
	$ 69,473,981	$ -	$ 69,473,981	$ -
Nonrecurring items				
Impaired loans, net	$ 1,263,273	$ -	$ -	$ 1,263,273
Other real estate owned	2,068,569	-	-	2,068,569
	$ 3,331,842	$ -	$ -	$ 3,331,842
December 31, 2018				
Recurring items				
Mortgage-backed securities	$ 38,356,149	$ -	$ 38,356,149	$ -
Obligations of states and political subdivisions	36,197,458	-	36,197,458	-
Obligations of U.S. government corporations and agencies	3,997,964	-	3,997,964	-
	$ 78,551,571	$ -	$ 78,551,571	$ -
Nonrecurring items				
Impaired loans, net	$ 870,044	$ -	$ -	$ 870,044
Other real estate owned	2,094,552	-	-	2,094,552
	$ 2,964,596	$ -	$ -	$ 2,964,596

Note 14 – Fair Values of Assets and Liabilities (continued)

Assets and liabilities are reported in the table by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the consolidated financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the consolidated financial statements at some time during the reporting period.

The following table provides a description of the valuation technique, observable input and qualitative information about the unobservable inputs for the Company's assets classified as Level 3 and measured at fair value on a nonrecurring basis at December 31, 2019 and 2018:

Financial Instruments	Valuation Technique	Unobservable Inputs	Discount Range 2019	Discount Range 2018
Impaired loans, net	Market comparable	Adjustments to appraised values	10% – 15%	10% – 15%
Other real estate owned	Market comparable	Adjustments to appraised values	6% – 10%	11%

The Company did not change the methodology used to determine fair value for any financial instruments during the years ended December 31, 2019 and 2018. Nor did the Company have any transfers to or from Level 1, Level 2 or Level 3 during these years.

The following tables disclose the estimated fair value and the related carrying value of the Company's financial assets and liabilities:

	Carrying Value	Fair Value at December 31, 2019 Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 3,229,811	$ 3,229,811	$ 3,229,811	$ -	$ -
Interest-bearing deposits in other financial institutions	6,617,069	6,617,069	6,617,069	-	-
Securities available-for-sale	69,473,981	69,473,981	-	69,473,981	-
Securities held-to-maturity	5,884,118	6,052,934	-	6,052,934	-
Loans held-for-sale	5,046,474	5,046,474	-	5,046,474	-
Loans	192,264,307	189,420,000	-	-	189,420,000
Accrued interest receivable	1,184,752	1,184,752	-	1,184,752	-
Federal Home Loan Bank stock	339,300	339,300	-	339,300	-
Financial liabilities					
Noninterest-bearing demand deposits	113,298,240	113,298,240	113,298,240	-	-
Interest-bearing demand deposits	37,093,651	37,093,651	37,093,651	-	-
Savings	87,285,566	87,285,566	87,285,566	-	-
Time deposits	23,581,279	23,568,000	-	23,568,000	-
Accrued interest payable	93,828	93,828	-	93,828	-

Note 14 – Fair Values of Assets and Liabilities (continued)

	Carrying Value	Fair Value at December 31, 2018			
		Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 3,715,166	$ 3,715,166	$ 3,715,166	$ -	$ -
Interest-bearing deposits in other financial institutions	4,988,294	4,988,294	4,988,294	-	-
Securities available-for-sale	78,551,571	78,551,571	-	78,551,571	-
Securities held-to-maturity	8,517,968	8,760,866	-	8,760,866	-
Loans held-for-sale	1,569,583	1,569,583	-	1,569,583	-
Loans	172,937,618	169,729,000	-	-	169,729,000
Accrued interest receivable	1,250,095	1,250,095	-	1,250,095	-
Federal Home Loan Bank stock	323,700	323,700	-	323,700	-
Financial liabilities					
Noninterest-bearing demand deposits	105,480,305	105,480,305	105,480,305	-	-
Interest-bearing demand deposits	34,383,782	34,383,782	34,383,782	-	-
Savings	88,980,370	88,980,370	88,980,370	-	-
Time deposits	22,863,522	22,798,000	-	22,798,000	-
Accrued interest payable	62,646	62,646	-	62,646	-

Note 15 – Regulatory Capital

The Company and Bank are subject to various regulatory capital requirements administered by the 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 Company and Bank’s financial statements. Under capital adequacy guidelines, the Company and Bank must meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company and Bank’s capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

As of the most recent notifications from its regulatory agencies, the Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 and Tier 1 leverage capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes may have changed the Bank’s category.

Note 15 – Regulatory Capital (continued)

The capital ratios for the Company are substantially the same as those of the Bank.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	($000s)		($000s)		($000s)	
December 31, 2019						
Total risk-based capital (to risk-weighted assets)	$ 31,850	14.6%	$ 17,448	8.0%	$ 21,809	10.0%
Tier I capital (to risk-weighted assets)	$ 29,117	13.4%	$ 13,086	6.0%	$ 17,448	8.0%
Common equity tier 1 (to risk-weighted assets)	$ 29,117	13.4%	$ 9,814	4.5%	$ 14,176	6.5%
Tier I capital (to average total assets)	$ 29,117	9.8%	$ 11,937	4.0%	$ 14,921	5.0%
December 31, 2018						
Total risk-based capital (to risk-weighted assets)	$ 30,410	15.6%	$ 15,580	8.0%	$ 19,475	10.0%
Tier I capital (to risk-weighted assets)	$ 27,968	14.4%	$ 11,685	6.0%	$ 15,580	8.0%
Common equity tier 1 (to risk-weighted assets)	$ 27,968	14.4%	$ 8,764	4.5%	$ 12,659	6.5%
Tier I capital (to average total assets)	$ 27,968	9.6%	$ 11,605	4.0%	$ 14,506	5.0%

The Bank was required to phase-in a “conservation buffer,” consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets by December 31, 2019. An institution that does not meet the conservation buffer requirement will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers. The phase-in began in 2017 and was fully completed during 2019.

Dividends

Regulations of the FDIC do not permit the Bank to pay dividends on its common stock if stockholders’ equity would thereby be reduced below the Bank’s regulatory capital requirements.

Note 16 – Revenue from Contracts with Customers

As noted in Note 1, the Company adopted the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on January 1, 2018 and all subsequent ASUs that modified Topic 606. All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in non-interest income or noninterest expense.

The following table presents the Company's sources of non-interest income for the twelve months ended December 31:

	2019	2018
Non-interest income		
Service charges and fees		
Interchange income, net	$ 695,268	$ 668,031
Service charges on deposits	566,369	571,659
Loan servicing income (1)	507,514	498,254
Other income (1)	748,626	611,364
Total service charges and fees	2,517,777	2,349,308
Net gain on sale of loans (1)	575,562	548,254
BOLI income (1)	170,759	174,642
Net gain on sales of investment securities (1)	16,854	259,455
Total non-interest income	$ 3,280,952	$ 3,331,659

(1) Not within the scope of ASC 606

Note 17 – Subsequent Event

Subsequent to year end, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization characterized the coronavirus outbreak as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. In addition, the Federal Open Market Committee of the United States Federal Reserve System lowered the federal funds target rate by 1.50%, reduced the rate for discount window loans, and took other actions to promote the stability of the financial system.

The duration and intensity of the impact of the coronavirus and resulting impact to the Company is unknown. A broad-based reduction in interest rates may reduce the Company’s interest income and/or net interest margin, may result in increased prepayments of mortgage loans and may cause customers to withdraw deposits, impacting the Company’s liquidity. A reduction in economic output or a recession in the U.S. economy, both of which appear probable as a result of the pandemic, may also result in valuation adjustments to many of the Company’s assets.