REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

DENALI BANCORPORATION, INC. AND SUBSIDIARY

December 31, 2020 and 2019

MOSSADAMS

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

MOSSADAMS

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, 2020 and 2019, 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, 2020 and 2019, 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, 2021

Denali Bancorporation, Inc. and Subsidiary
Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 3,465,594	$ 3,229,811
Interest-bearing deposits in other financial institutions	14,194,662	6,617,069
Investment securities available-for-sale, at fair value	82,238,880	69,473,981
Investment securities held-to-maturity, at amortized cost	16,691,676	5,884,118
Federal Home Loan Bank stock	355,100	339,300
Loans held-for-sale	10,806,088	5,046,474
Loans, net of allowance for loan losses and unearned income	237,626,765	188,641,425
Accrued interest receivable	1,687,702	1,184,752
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	5,378,445	5,229,312
Cash surrender value of bank-owned life insurance	6,878,570	6,713,540
Other real estate owned	-	2,068,569
Other assets	1,189,500	1,456,265
Total assets	$ 380,512,982	$ 295,884,616
LIABILITIES		
Deposits		
Noninterest-bearing demand deposits	$ 151,570,877	$ 113,298,240
Interest-bearing demand deposits	41,789,001	37,093,651
Savings	114,296,329	87,285,566
Time deposits	25,713,173	23,581,279
Total deposits	333,369,380	261,258,736
Subordinated notes	10,000,000	-
Dividends payable	2,061,361	1,885,027
Accrued interest payable and other liabilities	2,358,543	1,971,079
Total liabilities	347,789,284	265,114,842
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
STOCKHOLDERS' EQUITY		
Common stock $1 par value; 10,000,000 shares authorized; 2,863,001 and 2,856,101 shares issued and outstanding at December 31, 2020 and 2019, respectively	2,863,001	2,856,101
Additional paid-in capital	5,538,662	5,471,387
Retained earnings	21,829,094	20,761,996
Accumulated other comprehensive income, net of taxes	2,492,941	1,680,290
Total stockholders' equity	32,723,698	30,769,774
Total liabilities and stockholders' equity	$ 380,512,982	$ 295,884,616
BOOK VALUE PER SHARE OF COMMON STOCK	$ 11.43	$ 10.77

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Income

	Years Ended December 31, 2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 12,618,745	$ 11,645,543
Interest on investment securities	2,380,036	2,495,107
Interest on deposits at other financial institutions	51,678	209,780
Total interest income	15,050,459	14,350,430
INTEREST EXPENSE		
Interest on deposits	462,046	441,691
Interest on borrowed funds	73,278	32,386
Total interest expense	535,324	474,077
NET INTEREST INCOME	14,515,135	13,876,353
PROVISION FOR LOAN LOSSES	1,520,000	880,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,995,135	12,996,353
NONINTEREST INCOME		
Service charges and other fees	2,233,633	2,517,777
Net gain on sale of loans	1,890,130	575,562
Increase in value of bank-owned life insurance	165,030	170,759
Net gains on sales and calls of investment securities	-	16,854
Total noninterest income	4,288,793	3,280,952
NONINTEREST EXPENSE		
Salaries and employee benefits	8,617,166	7,826,136
Data processing and telephone	1,292,581	1,167,438
Net occupancy and equipment	1,221,293	1,160,315
Professional fees	363,624	382,411
Bankcard processing	339,236	322,476
Advertising and promotion	238,068	295,859
Other operating expenses	1,359,512	1,520,991
Total noninterest expense	13,431,480	12,675,626
INCOME BEFORE PROVISION FOR INCOME TAXES	3,852,448	3,601,679
PROVISION FOR INCOME TAXES	723,989	637,964
NET INCOME	$ 3,128,459	$ 2,963,715
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	2,862,869	2,855,940
BASIC AND DILUTED EARNINGS PER SHARE	$ 1.09	$ 1.04

See accompanying notes.

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income

	Years Ended December 31, 2020	2019
NET INCOME	$ 3,128,459	$ 2,963,715
OTHER COMPREHENSIVE INCOME		
Change in unrealized gain on investment securities available-for-sale, net of taxes of $322,749 and $503,589	812,651	1,267,630
Reclassification adjustment for realized gains on investment securities available-for-sale included in noninterest income, net of taxes of $3,095	-	(7,804)
Total other comprehensive income, net of taxes	812,651	1,259,826
COMPREHENSIVE INCOME	$ 3,941,110	$ 4,223,541

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
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
Net income	-	-	-	3,128,459	-	3,128,459
Other comprehensive income, net of taxes	-	-	-	-	812,651	812,651
Directors' fees paid in common stock	6,900	6,900	67,275	-	-	74,175
Cash dividend ($0.72 per share)	-	-	-	(2,061,361)	-	(2,061,361)
BALANCE, December 31, 2020	2,863,001	$ 2,863,001	$ 5,538,662	$ 21,829,094	$ 2,492,941	$ 32,723,698

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

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,128,459	$ 2,963,715
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,520,000	880,000
Depreciation and amortization	515,194	446,563
Amortization of right-of-use asset	171,817	165,544
Amortization of premiums/accretion of discounts on investment securities	868,749	907,986
Net gain on sale of investment securities available-for-sale	-	(10,899)
Net gain on call of investment securities held-to-maturity	-	(5,955)
(Gain) loss on sale of other real estate owned	(101,940)	2,167
Impairment of other real estate owned	71,088	25,982
Directors' fees paid with common stock	74,175	68,670
Change in deferred loan fees and costs	(1,221,565)	70,896
Change in deferred taxes	(249,850)	(208,700)
Proceeds from sale of loans held-for-sale	69,056,532	26,903,890
Originations of loans held-for-sale	(72,926,016)	(29,805,219)
Net gain on sale of loans	(1,890,130)	(575,562)
Increase in value of bank-owned life insurance	(165,030)	(170,759)
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable	(502,950)	65,343
Other assets	22,049	(100,441)
Accrued interest payable and other liabilities	559,281	356,371
Decrease in lease liability	(171,817)	(165,544)
Net cash (used in) from operating activities	(1,241,954)	1,814,048
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing deposits in other financial institutions	(7,577,593)	(1,628,775)
Purchases of available-for-sale securities	(24,456,530)	(8,144,557)
Proceeds from sale of available-for-sale securities	-	4,907,810
Proceeds from calls and maturities of available-for-sale securities	11,999,638	13,230,523
Purchases of held-to-maturity securities	(13,032,500)	-
Proceeds from calls and maturities of held-to-maturity securities	2,183,586	2,586,852
Net increase in loans	(49,643,863)	(20,482,977)
Proceeds from sales of other real estate owned	2,459,509	366,384
Purchases of Federal Home Loan Bank stock	(15,800)	(15,600)
Payments made for purchases of premises, equipment, and leasehold improvements	(664,327)	(960,083)
Net cash used in investing activities	(78,747,880)	(10,140,423)

 See accompanying notes.

	Years Ended December 31, 2020	Years Ended December 31, 2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposit and savings accounts	$ 69,978,750	$ 8,833,000
Net increase in time deposits	2,131,894	717,757
Proceeds from subordinated debt issuance	10,000,000	-
Cash dividends paid	(1,885,027)	(1,709,737)
Net cash from financing activities	80,225,617	7,841,020
NET CHANGE IN CASH AND CASH EQUIVALENTS	235,783	(485,355)
CASH AND CASH EQUIVALENTS, beginning of year	3,229,811	3,715,166
CASH AND CASH EQUIVALENTS, end of year	$ 3,465,594	$ 3,229,811
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 529,655	$ 442,895
Cash paid for income taxes	$ 1,050,000	$ 790,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in fair value of securities included in accumulated other comprehensive income, net of tax	$ 812,651	$ 1,259,826
Transfer of loans to other real estate owned	$ 360,088	$ 368,550
Dividends declared but unpaid	$ 2,061,361	$ 1,885,027

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.

Federal Home Loan Bank (FHLB) of Des Moines stock

At December 31, 2020 and 2019, the Bank held FHLB stock with a par value of $355,100 and $339,300, 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.

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

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, 2020.

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.

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.

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

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in March 2020, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings ("TDRs") for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). To be eligible for CARES Act exemptions, modifications of loans must be due to the direct financial effects of the Pandemic on the borrower, the modification granted between March 1, 2020 and the end of the applicable period (January 1, 2022, or 60 days after the COVID-19 national emergency is terminated), and the borrower was not more than 30 days past due as of December 31, 2019. As a result, the Bank has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods.

The Bank accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. For consumer and commercial loans, when payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. For residential mortgages, borrowers will pay scheduled principal and interest payments according to the loan amortization schedule with deferred principal and interest repaid in a balloon payment at original scheduled maturity. Accrued interest balances are assessed for collectability on a periodic basis.

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 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 nine 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)

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 2017.

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 recognition
The majority of the Company's revenues come from interest income and other sources, including loans, and investments. The Company recognizes income in accordance with the applicable accounting guidance for these revenue sources. The Company's revenues that are within the scope of Accounting Standards Codification Topic 606 (ASC 606) include interchange income, service charges on deposits and gains and losses on other real estate owned, net.

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.

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

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 $238,068 and $295,859 were charged to expense during the years ended December 31, 2020 and 2019, respectively.

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, 2020 and 2019, and basic and diluted earnings per share are equal.

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

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.

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.

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

Adoption of new accounting standards
In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU was issued to improve the effectiveness of disclosures surrounding fair value measurements. The ASU removes numerous disclosures from Topic 820 including: transfers between level 1 and 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation process for level 3 fair value measurements. The ASU also modified and added disclosure requirements in regards to changes in unrealized gains and losses included in other comprehensive income, as well as the range and weighted average of unobservable inputs for level 3 fair value measurements. The Company adopted this ASU as of January 1, 2020, on a retrospective basis except certain provisions of the guidance which are only required to be applied on a prospective basis. The adoption of ASC 2018-13 did not have a material impact on the Company's consolidated financial position or results of operations.

Account pronouncements recently issued and not yet adopted
Financial Instruments-Credit Losses (Topic 326) - In September 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments.* The standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard, and subsequent amendments, are effective for annual periods beginning after December 15, 2022, and interim period within those annual periods. The Company's implementation will be effective January 1, 2023. The Company is actively assessing data and model needs, and is evaluating the impact of adopting the standard. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

Reference Rate Reform (Topic 848) – In March 2020, FASB issued ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in the ASU provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in the ASU provide optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. The amendments in the ASU will be in effect for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the provisions of ASU No. 2020-04 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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

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.

The Company has evaluated subsequent events through March 30, 2021, 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, 2020				
Securities available-for-sale				
Mortgage-backed securities	$ 37,865,583	$ 1,674,133	$ (171,840)	$ 39,367,876
Obligations of states and political subdivisions	37,886,913	1,968,988	(18,243)	39,837,658
Obligations of U.S. government corporations and agencies	3,003,210	30,136	-	3,033,346
	$ 78,755,706	$ 3,673,257	$ (190,083)	$ 82,238,880
Securities held-to-maturity				
Corporate debt	$ 8,000,000	$ -	$ -	$ 8,120,000
Obligations of states and political subdivisions	3,366,875	93,133	-	3,460,008
Mortgage-backed securities	5,324,801	37,349	-	5,362,150
	$ 16,691,676	$ 130,482	$ -	$ 16,942,158
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

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, 2020						
Securities available-for-sale						
Mortgage-backed securities	$ 5,235,193	$ (171,840)	$ -	$ -	$ 5,235,193	$ (171,840)
Obligations of states and political subdivisions	2,763,814	(18,243)	-	-	2,763,814	(18,243)
	$ 7,999,007	$ (190,083)	$ -	$ -	$ 7,999,007	$ (190,083)
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)

At December 31, 2020 and 2019, the Bank held six and three 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, 2020, 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, 2020 or 2019. 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, 2020.

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 in prior periods 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, 2020 and 2019:

	2020	2019
Balance of OTTI recognized, beginning of period	$ (225,978)	$ (283,218)
Reduction in OTTI for repayments of debt securities	28,185	57,240
Balance of OTTI recognized, end of period	$ (197,793)	$ (225,978)

At December 31, 2020 and 2019, securities with fair values of approximately $35,400,000 and $32,500,000, respectively, were pledged to secure borrowings and public deposits, as required or permitted by law.

There were no sales of available-for-sale securities during the year ended December 31, 2020. Proceeds from the sales of available-for-sale securities were $4,907,810 for the year ended December 31, 2019. The sales resulted in gross realized gains of $32,021 for the year ended December 31, 2019. Gross realized losses for the year ended December 31, 2019 were $21,122.

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities by contractual maturity at December 31, 2020, 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, 2020			
	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 5,921,196	$ 5,972,348	$ 525,150	$ 536,575
Due after one year through five years	3,564,283	3,751,017	6,417,252	6,452,719
Due after five years through ten years	4,769,477	5,025,326	8,520,019	8,652,535
Due after ten years	64,500,750	67,490,189	1,229,255	1,300,329
	$ 78,755,706	$ 82,238,880	$ 16,691,676	$ 16,942,158

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:

	2020	2019
Commercial	$ 101,082,534	$ 51,933,515
Commercial real estate	71,136,783	72,275,892
Consumer	30,853,514	24,815,664
Residential	40,478,467	43,239,236
Total loans	243,551,298	192,264,307
Allowance for loan losses	(4,351,537)	(3,271,451)
Deferred loan fees and costs, net	(1,572,996)	(351,431)
Loans, net	$ 237,626,765	$ 188,641,425

Loans pledged to secure borrowings were approximately $68,400,000 and $71,940,000 as of December 31, 2020 and 2019, 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, 2020 and 2019, the Bank serviced mortgage loans of $196,233,886 and $180,590,633, respectively, which had been sold to these investors.

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

Pursuant to the CARES Act passed in March 2020, the Company funded loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have a term of two years and earn interest at 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans included in Commercial loans at December 31, 2020 was $28,882,821 and the net deferred fee included in deferred loan fees and costs, net, was $1,199,726.

On June 5, 2020, the PPP Flexibility Act was signed into law that modified, among other things, rules governing the PPP payment deferral period. In October 2020, due to updated guidance from the SBA that PPP loan payments were to be deferred until SBA had remitted forgiveness funds to the lender if the Borrower applied for forgiveness within ten months after the end of their covered period, the Bank modified the first payment due dates for PPP loans that originated prior to June 5, 2020, and extended the payment deferral period from six to twelve months. The extended payment deferral period will affect the timing over which the accretion of PPP net loan origination fees are recognized.

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, 2020 and 2019:

	2020				
	Commercial	Commercial Real Estate	Consumer	Residential	Totals
Allowance					
Balance, beginning of the period	$ 994,710	$ 1,192,046	$ 926,399	$ 158,296	$ 3,271,451
Charge-offs	(6,243)	-	(474,681)	(72,428)	(553,352)
Recoveries	49	-	112,489	900	113,438
Provision for loan losses	652,500	-	592,500	275,000	1,520,000
Balance, end of the period	$ 1,641,016	$ 1,192,046	$ 1,156,707	$ 361,768	$ 4,351,537
Ending balance individually evaluated for impairment	$ 378,546	$ -	$ 4,558	$ 58,901	$ 442,005
Ending balance collectively evaluated for impairment	$ 1,262,470	$ 1,192,046	$ 1,152,149	$ 302,867	$ 3,909,532
Loans					
Ending balance individually evaluated for impairment	$ 5,936,803	$ 2,249,804	$ 53,325	$ 554,734	$ 8,794,666
Ending balance collectively evaluated for impairment	$ 95,145,731	$ 68,886,979	$ 30,800,189	$ 39,923,733	$ 234,756,632
Total loans	$ 101,082,534	$ 71,136,783	$ 30,853,514	$ 40,478,467	$ 243,551,298

	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

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:

	2020				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Low Risk	$ 29,775,116	$ 914,874	$ 2,325,738	$ 4,815,381	$ 37,831,109
Average Risk	15,968,187	18,891,524	41,153	4,542,855	39,443,719
Acceptable Risk	44,694,975	46,431,203	28,438,664	30,047,966	149,612,808
Watch	2,714,881	1,204,868	-	504,880	4,424,629
Special Mention	3,161,568	3,037,534	-	287,548	6,486,650
Substandard	4,767,807	656,780	47,959	279,837	5,752,383
Total	$ 101,082,534	$ 71,136,783	$ 30,853,514	$ 40,478,467	$ 243,551,298

	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

Note 4 – Allowance for Loan Losses (continued)

The following table shows the age analysis of past due and nonaccrual loans as of December 31, 2020 and 2019:

	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, 2020							
Commercial	$ 161,223	$ 100,000	$ -	$ 261,223	$ 419,119	$ 100,402,192	$ 101,082,534
Commercial real estate	75,721	-	-	75,721	2,249,804	68,811,258	71,136,783
Consumer	21,733	15,698	7,560	44,991	47,959	30,760,564	30,853,514
Residential	457,933	2,806	35,505	496,244	191,496	39,790,727	40,478,467
	$ 716,610	$ 118,504	$ 43,065	$ 878,179	$ 2,908,378	$ 239,764,741	$ 243,551,298

	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

Note 4 – Allowance for Loan Losses (continued)

The following table discloses information related to impaired loans for the years ended December 31, 2020 and 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020					
With no related allowance recorded					
Commercial	$ 399,400	$ 399,400	$ -	$ 446,102	$ 23,571
Commercial real estate	2,249,804	2,249,804	-	2,403,129	32,955
Residential	133,622	133,622	-	306,496	5,171
Consumer	20,614	20,614	-	24,445	1,400
	2,803,440	2,803,440	-	3,180,172	63,097
With an allowance recorded					
Commercial	5,537,403	5,537,403	378,546	2,812,884	335,508
Residential	421,112	421,112	58,901	483,923	19,223
Consumer	32,711	32,711	4,558	35,058	-
	5,991,226	5,991,226	442,005	3,331,865	354,731
Totals					
Commercial	5,936,803	5,936,803	378,546	3,258,986	359,079
Commercial real estate	2,249,804	2,249,804	-	2,403,129	32,955
Residential	554,734	554,734	58,901	790,419	24,394
Consumer	53,325	53,325	4,558	59,503	1,400
	$ 8,794,666	$ 8,794,666	$ 442,005	$ 6,512,037	$ 417,828
December 31, 2019					
With no related allowance recorded					
Commercial	$ 301,771	$ 301,771	$ -	$ 275,162	$ 15,860
Commercial real estate	239,279	239,279	-	299,620	59,905
Residential	479,369	479,369	-	346,884	33,010
Consumer	28,276	28,276	-	14,138	-
	1,048,695	1,048,695	-	935,804	108,775
With an allowance recorded					
Commercial	88,365	88,365	8,574	64,183	-
Commercial real estate	724,442	724,442	40,501	557,946	32,453
Residential	546,734	546,734	74,208	496,365	20,661
Consumer	37,404	37,404	10,389	33,175	2,805
	1,396,945	1,396,945	133,672	1,151,669	55,919
Totals					
Commercial	390,136	390,136	8,574	339,345	15,860
Commercial real estate	963,721	963,721	40,501	857,566	92,358
Residential	1,026,103	1,026,103	74,208	843,249	53,671
Consumer	65,680	65,680	10,389	47,313	2,805
	$ 2,445,640	$ 2,445,640	$ 133,672	$ 2,087,473	$ 164,694

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, 2020 and 2019:

	December 31, 2020		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate	$ -	$ 84,312	$ 84,312
Residential	272,886	-	272,886
Commercial	61,766	-	61,766
Consumer	5,366	-	5,366
	$ 340,018	$ 84,312	$ 424,331

	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

As of December 31, 2020 and 2019, no lending commitments were outstanding for troubled debt restructurings.

Note 4 – Allowance for Loan Losses (continued)

During the year ended December 31, 2020, there was one residential loan, totaling approximately $28,850, modified as a troubled debt restructuring. During 2019, there was one commercial loan, totaling approximately $105,000, modified as a troubled debt restructuring.

During 2020, there were no loans with a payment default occurring within 12 months of the restructure date. 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.

As of December 31, 2020, one commercial loan totaling $1,593,024, two residential loans totaling $376,600 and one consumer loans totaling $11,658 were modified as CARES Act deferrals and not reported as TDRs.

Note 5 – Premises, Equipment, and Leasehold Improvements

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

	2020	2019
Buildings and leasehold improvements	$ 10,040,068	$ 9,754,759
Equipment	6,896,763	6,494,575
Land	708,307	708,307
Construction in progress	-	23,170
	17,645,138	16,980,811
Less: accumulated depreciation and amortization	(12,266,693)	(11,751,499)
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 5,378,445	$ 5,229,312

Depreciation and amortization expense totaled $515,194 and $446,563 for 2020 and 2019, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250,000 and over totaled $7,728,563 and $7,340,660 at December 31, 2020 and 2019, respectively.

As of December 31, 2020, the scheduled maturities for all time deposits were as follows:

Years ending December 31,	2021	$ 20,666,302
	2022	3,133,340
	2023	994,123
	2024	320,851
	2025	598,557
		$ 25,713,173

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, 2020 and 2019 available borrowings were approximately $39,300,000 and $41,980,000, respectively. As of December 31, 2020 and 2019, 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 $15,000,000 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, 2020 and 2019.

Company utilized the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility (PPPLF) to fund SBA PPP loans during 2020 and has repaid those funds in full as of December 31, 2020. This advance had an interest rate of 0.35% and interest expense during the year ended December 31, 2020 was $34,846.

Subordinated debt

On December 17, 2020, the Company issued $10,000,000 in fixed-to-floating subordinated notes that mature on December 16, 2030. The subordinated notes bear a fixed interest rate of 5.00% until December 17, 2025 and a floating interest rate equal to a benchmark rate, which is expected to be three-month Secured Overnight Financing Rate plus 440 basis points thereafter until maturity. The transaction resulted in debt issuance costs of approximately $11,000 that were expensed as incurred. The Company may, at its option, redeem the notes, in whole or in part, without premium or penalty beginning on December 17, 2025.

Note 8 – Income Taxes

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

	2020	2019
Current tax expense		
Federal	$ 664,975	$ 610,764
State	308,864	235,900
	973,839	846,664
Deferred tax benefit		
Federal	(184,550)	(154,187)
State	(65,300)	(54,513)
	(249,850)	(208,700)
Provision for income taxes	$ 723,989	$ 637,964

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

	2020		2019	
Statutory Federal income tax rate	$ 809,014	21.0%	$ 756,352	21.0%
State tax, net of Federal benefit	286,083	7.4%	267,461	7.4%
Tax exempt interest and non-taxable income	(377,541)	-9.8%	(399,638)	-11.1%
Other, net	6,433	-0.2%	13,789	0.1%
Provision for income taxes	$ 723,989	18.4%	$ 637,964	17.5%

Note 8 – Income Taxes (continued)

Deferred income taxes, recorded as other assets at December 31, 2020 and 2019, represent the tax effect of differences in timing between financial statement income and taxable income. The net deferred tax assets and liabilities, recorded within other assets, in the accompanying consolidated balance sheets at December 31, include the following components:

	2020	2019
Deferred tax assets		
Excess of provision for loan losses over deduction	$ 1,080,042	$ 817,921
Deferred compensation	413,339	322,767
Lease liability	140,560	189,401
Accrued leave	104,853	83,399
Nonaccrual interest income	104,985	64,537
Other reserves	3,083	2,898
OREO write-down	-	32,588
Total deferred tax assets	1,846,862	1,513,511
Deferred tax liabilities		
Accelerated depreciation	(347,205)	(232,280)
Right-of-use asset	(140,560)	(189,401)
Prepaids	(77,708)	(61,790)
Deferred loan costs	(97,869)	(96,517)
Unrealized gain on securities available-for-sale	(990,232)	(667,483)
Total deferred tax liabilities	(1,653,574)	(1,247,471)
Net deferred tax assets	$ 193,288	$ 266,040

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 the deferred tax assets by a valuation allowance.

During the years ended December 31, 2020 and 2019, the Company recognized no interest and penalties related to taxes. As of December 31, 2020 and 2019, the Company had no unrecognized tax benefits. Management does not anticipate that the amount of unrecognized tax benefits will significantly change in the next 12 months.

On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2020, the Company has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on the effective tax rate.

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.

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.

Note 9 – Commitments and Contingencies (continued)

At December 31, 2020, 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:

Commercial lines of credit	$ 13,129,000
Commitments to extend credit	5,153,000
Home equity lines	7,286,000
Other unused commitments	1,434,000
Total commitments	$ 27,002,000

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 as of December 31:

	Balance Sheet Classification	2020	2019
Right-of-use asset:			
Operating leases	Other assets	$ 494,478	$ 666,295
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 494,478	$ 666,295

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

	2020	2019
Operating lease expense:		
Operating leases (1)	$ 197,272	$ 187,704
Less: operating lease income	(155,468)	(151,368)
Total operating lease expense, net	$ 41,804	$ 36,336

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

Note 10 – Leases (continued)

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	Operating Leases As Lessor
2021	$ 188,920	$ 161,468
2022	150,840	161,468
2023	134,940	149,134
2024	99,200	136,800
2025	-	136,800
Total undiscounted lease payments and receipts	573,900	$ 745,670
Less: imputed interest	(79,422)	
Net lease liabilities	$ 494,478	

Supplemental Lease information

For the year ended December 31:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 196,536	$ 189,176
Operating lease weighted average remaining lease term (years)	3.4	4.3
Operating lease weighted average discount rate	5.50%	5.75%

There were no new right-of-use assets obtained in exchange for new operating lease liabilities during the year ended December 31, 2020.

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

Rent expense was $197,272 and $187,704 for the years ended December 31, 2020 and 2019, respectively. Lease income was $155,468 and $151,368 for the years ended December 31, 2020 and 2019.

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:

	2020	2019
BALANCE, beginning of year	$ 981,930	$ 3,104,269
Principal advanced	3,137,511	1,853,061
Principal repaid	(3,099,421)	(3,975,400)
BALANCE, end of year	$ 1,020,020	$ 981,930

As of December 31, 2020 and 2019, funds on deposit with the Bank from directors, principal stockholders, their related interests, and principal officers totaled $22,920,037 and $5,407,450, 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, 2020 and 2019, the Company issued directors 6,900 shares at $10.75 a share and 6,540 shares at $10.50 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 $283,839 and $251,484 to this plan in 2020 and 2019, 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 $252,000 and $240,000 for the years ended December 31, 2020 and 2019, 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 2020 or 2019. The total recorded plan obligation was $75,614 and $72,549 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the liability associated with this plan was $1,377,935 and $1,062,915, respectively, and the Company recorded expense in the statement of income for the years ended December 31, 2020 and 2019, of $315,020 and $303,814, 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, 2020				
Recurring items				
Mortgage-backed securities	$ 39,367,876	$ -	$ 39,367,876	$ -
Obligations of states and political subdivisions	39,837,658	-	39,837,658	-
Obligations of U.S. government corporations and agencies	3,033,346	-	3,033,346	-
	$ 82,238,880	$ -	$ 82,238,880	$ -
Nonrecurring items				
Impaired loans, net	$ 5,549,221	$ -	$ -	$ 5,549,221
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

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.

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

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, 2020 and 2019:

Financial Instruments	Valuation Technique	Unobservable Inputs	Discount Range 2020	Discount Range 2019
Impaired loans, net	Market comparable	Adjustments to appraised values	10% – 15%	10% – 15%
	Discounted cash flow	Discount rate	3% – 7%	n/a
Other real estate owned	Market comparable	Adjustments to appraised values	n/a	6% – 10%

The Company did not change the methodology used to determine fair value for any financial instruments during the years ended December 31, 2020 and 2019. 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, 2020 Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 3,465,594	$ 3,465,594	$ 3,465,594	$ -	$ -
Interest-bearing deposits in other financial institutions	14,194,662	14,194,662	14,194,662	-	-
Securities available-for-sale	82,238,880	82,238,880	-	82,238,880	-
Securities held-to-maturity	16,691,676	16,942,158	-	16,942,158	-
Loans held-for-sale	10,806,088	10,806,088	-	10,806,088	-
Loans	243,551,298	244,840,000	-	-	244,840,000
Accrued interest receivable	1,687,702	1,687,702	-	1,687,702	-
Federal Home Loan Bank stock	355,100	355,100	-	355,100	-
Financial liabilities					
Noninterest-bearing demand deposits	151,570,877	151,570,877	151,570,877	-	-
Interest-bearing demand deposits	41,789,001	41,789,001	41,789,001	-	-
Savings	114,296,329	114,296,329	114,296,329	-	-
Time deposits	25,713,173	25,781,000	-	25,781,000	-
Subordinated notes	10,000,000	10,150,000	-	10,150,000	-
Accrued interest payable	78,664	78,664	-	78,664	-

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

	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 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 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 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 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, 2020 and 2019, 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 following table discloses the capital ratios for 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, 2020						
Total risk-based capital (to risk-weighted assets)	$ 41,880	17.0%	$ 19,736	8.0%	$ 24,671	10.0%
Tier I capital (to risk-weighted assets)	$ 38,781	15.7%	$ 14,802	6.0%	$ 19,736	8.0%
Common equity tier 1 (to risk-weighted assets)	$ 38,781	15.7%	$ 11,102	4.5%	$ 16,036	6.5%
Tier I capital (to average total assets)	$ 38,781	10.5%	$ 14,775	4.0%	$ 18,469	5.0%
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%

The Bank is required to maintain a capital conservation buffer consisting of common equity Tier 1 capital greater than 2.5% of risk-weighted assets. 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.

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

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the twelve months ended December 31:

	2020	2019
Non-interest income		
Service charges and fees		
Interchange income, net	$ 648,149	$ 695,268
Service charges on deposits	544,420	566,369
Loan servicing income (1)	537,862	507,514
Other income (1)	503,202	748,626
Total service charges and fees	2,233,633	2,517,777
Net gain on sale of loans (1)	1,890,130	575,562
BOLI income (1)	165,030	170,759
Net gain on sales of investment securities (1)	-	16,854
Total non-interest income	$ 4,288,793	$ 3,280,952

(1) Not within the scope of ASC 606

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